

# Public Utilities

*FORTNIGHTLY*



Volume XLVII No. 3

February 1, 1951

## ZONE FARES FOR PASSENGER TRANSIT

Part I.

By Graeme Reid

< >

## Today's Tools for the Bride of Tomorrow

By James H. Collins

< >

## Planning Now for Future Man-power Shortages

By Ernest W. Fair

< >

## Do We Need a National Recreation Policy?

By John J. Hassett



# How Do You Choose a Gas Pressure Regulator?

There are several makes of gas pressure regulators on the market today. Often it becomes a problem for gas specialists and installers to choose from them. For your guidance, these points are suggested:

- Think twice before using or recommending the lowest priced devices. In a control accessory so vital as this, only the best and most dependable is the cheapest.
- If the manufacturer of the product you use makes regulators only, consider carefully his record of success, both as to years in business and satisfaction in actual service.
- If the manufacturer makes regulators and also other products used in the gas appliance field, investigate his reputation for these other products also.

On any of these points, you can't go wrong on the selection of Barber Gas Pressure Regulators. For about a third of a century, Barber's name on any product in the gas appliance field has been a sure symbol of reliability. Not only on regulators, but on conversion burners, and numberless other burners fully adapted to the needs of hundreds of appliances for all household, commercial, and industrial purposes—the Barber trademark amounts to the signature of an expert. You can rely on it—unconditionally. Buy Barber and you buy the best!



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G. A. Test-  
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Attractive folders on this Regulator will be furnished free, at your request, for distribution to your trade. Write for catalog and price list on Barber Burner Units for Gas Appliances, Conversion Burners for Furnaces and Boilers, and Regulators.



THE BARBER GAS BURNER CO., 3704 Superior Avenue, Cleveland 14, Ohio

## BARBER GAS PRESSURE REGULATORS

Barber Burners For Warm Air Furnaces, Steam and Hot Water Boilers and Gas Appliances

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# Public Utilities

## FORTNIGHTLY

VOLUME XLVII

FEBRUARY 1, 1951

NUMBER 3



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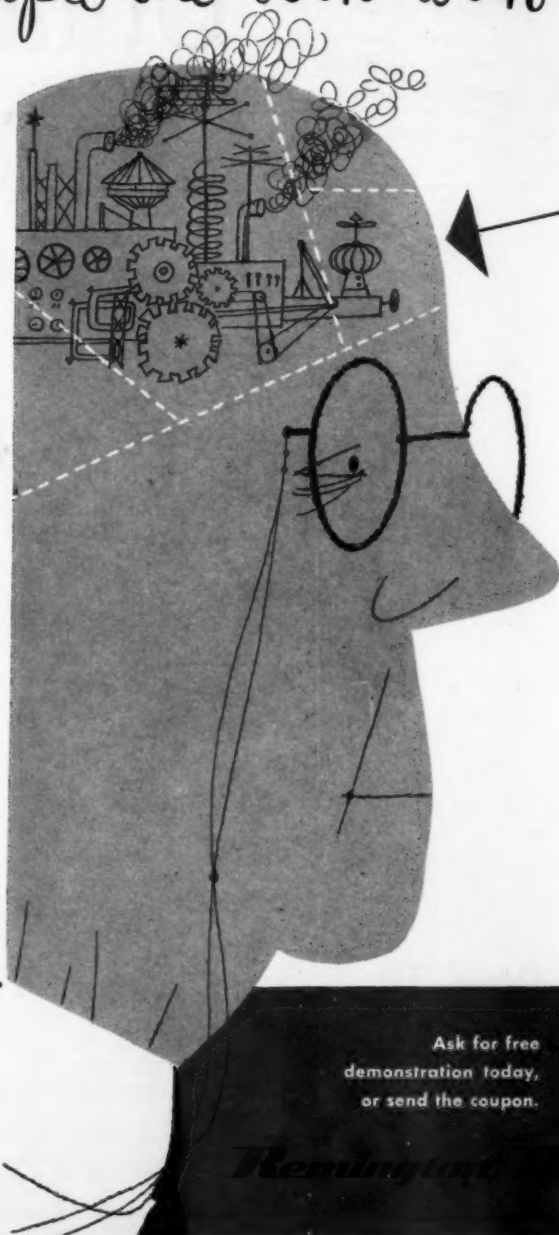
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but today

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## Pages with the Editors

NOT long ago, one of the New York newspapers wrote a nostalgic little editorial about the "vanishing buffalo"—meaning the lost purchasing power of the nickel. It included a list of the many fine, worthwhile things which a nickel could buy before World War I—assuming that the purchase was made under modest marketing conditions. The list included:

- 1 sandwich (ham or sausage)
- 1 crab cake
- 1 ice cream soda
- 1 piece of pie
- 1 streetcar ride
- 1 large writing tablet
- 1 small watermelon
- 1 large bar of soap
- 1 loaf of bread
- 1 quart of milk
- 1 glass of beer (12 ounces)
- 1 good cigar
- 1 moving picture show
- 1 Sunday paper

THE reader could doubtless supply many other items from his own memory, as an adult or child, of that era. We fondly recall when we could get a poor grade of baseball from a notion store, known as the "Nickel Rocket." For another nickel we could get a cheap, flimsy baseball bat. Then, the gang on our block would be all set up for a ball game, without more ado or further investment, until some kid knocked the ball through a window or down a sewer.

SOME old-timers even profess to recall when an infinitesimal amount of questionable spirits could be obtained, for a nickel, from even more questionable hostelry in Chicago, New York, and other big cities around the turn of the century. Clothing items would include cheap socks and ties, canvass gloves, celluloid collars, and even a boy's cap of some sort.

OBVIOUSLY, this list of things which could once be bought for five cents has gone the way of the horsecar and sideburns. But one item in the foregoing

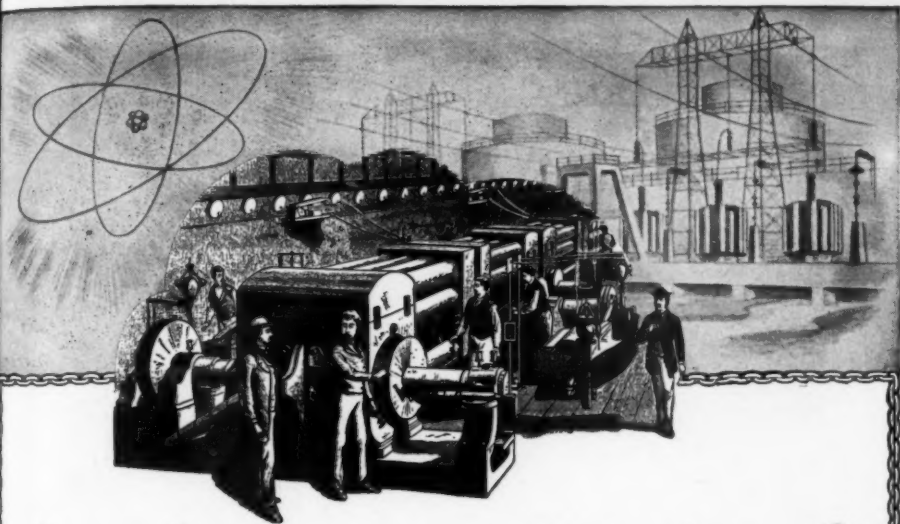


GRAEME REID

list is worthy of some comparative study by those interested in public utility economics. That is the once controversial 5-cent fare for a streetcar ride. It has been nearly three years now since the nickel fare made its last stand in New York city, years after it had become obsolescent in about every other city of any size (except for some bus operations, under protest, in New Jersey).

BUT the significant basis for comparison of streetcar fares with the other commodities in the nickel list is this: The streetcar riders are today getting, *mile for mile*, as much value, and in many places more value, for their money under today's transit fares, than they got under the old nickel setup a half-century ago. This leaves out of the question, the vastly superior and expensive equipment which he uses in modern service.

WHEN we pay 15 cents for a loaf of bread today, we do not get a loaf which is three times heavier or better. By and large, it is about the same loaf of bread we used to get for a nickel, years ago. But the streetcar ride we get today for a dime or even 15 cents may be, conceivably, *three to four times longer in distance!*



## *Is your financing program attuned to the times?*

● Scientists once marveled at these "Jumbo" dynamos which were installed in the first Edison Electric Lighting Station in New York City. Yet you could scarcely visualize them in the modern plant of today.

Financing programs can become outmoded, too—more rapidly than you might think. Has your organization an

up-to-date approach to the financial community—a comprehensive program fully geared to meet today's changing conditions?

Specialists in our Public Utilities Department will be glad to discuss such matters with you at any time—are in a position to give you expert help and guidance.

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Public Utilities Department

TOM P. WALKER, *Vice President in Charge*

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION



JOHN J. HASSETT

THIS is an economic factor of the transit industry which is not generally appreciated—certainly not by the mass of transit riders. We must confess that until we read the thoughtful article which begins in this issue by GRAEME REID we had not thought of it ourselves. But it is a cogent argument for a zone fare or some other fare arrangement which will distribute the operating costs of modern transit service more equitably among the different types of riders.

NEARLY all of our American cities have doubled or tripled, and some have even quadrupled, in size during the past half-century. New outlying suburbs have become established, mainly because transit lines were available (or could be made available by constant extension). But for some reason or other the same fare was supposed to be charged, no matter how far afield the facilities had to be stretched.

GRAEME REID, since 1947, has been a senior engineer with Ford, Bacon & Davis, Inc., with headquarters in New York city. Prior to that time he had both industrial and regulatory experience. Following his graduation as a civil engineer from Rensselaer Polytechnic Institute in 1926, he took courses in law, economics, accountancy, and business administration. He entered utility service as an engineer with the Public Service Electric & Gas Company of New Jersey

FEB. 1, 1951

in 1926. He was traffic engineer for Public Service Coördinated Transport from 1931 to 1936, when he shifted to the regulatory field as engineer in charge of the transportation division of the public utility commission of New Jersey. He left the commission's staff in 1940 for private consulting practice, and during World War II was a Commander in the Civil Engineer Corps, U. S. Navy.

The moon belongs to everyone,  
The sunlight and the deep blue sea,  
The breezes that blow, the rain, and  
the snow

The best things in life are free.

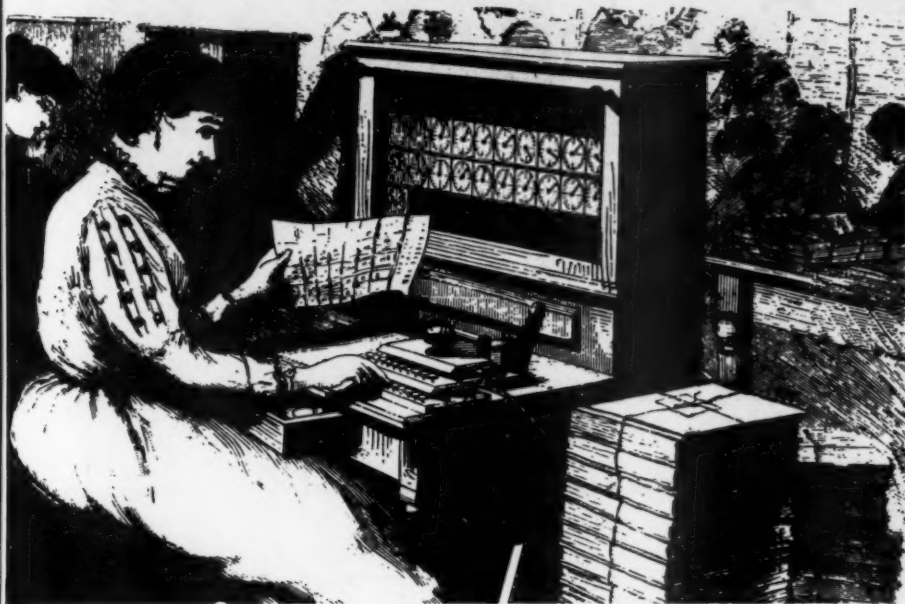
Who doesn't recall the lilting song which expressed the bounty of nature as distinguished from those shoddy assets which mortal man barter for filthy lucre? It's a nice poetic thought. But it may not remain very accurate if some of the imaginative statisticians planning Federal project construction have their way in determining the monetary benefits of recreation. It goes without saying that many of these Federal dams and other projects have resulted in lakes, waterways, highways, and other playgrounds for the enjoyment of the citizenry. Contrariwise, some wild life and their sanctuaries have suffered considerably. But whatever the result, it is interesting to note that there may be a price tag on it as far as funds returned to the Federal Treasury are concerned.

\* \* \* \*

JOHN J. HASSETT, formerly of the editorial staff of this magazine, has investigated this interesting but little-known area of value appraisals. His article, entitled "Do We Need a National Recreation Policy?" beginning on page 156 is the result. Mr. HASSETT was born in Washington, D. C., and is a graduate of Georgetown University. He is now editor of a construction business publication and also engages in free-lance writing.

THE next number of this magazine will be out February 15th.

*The Editors*



Courtesy Bettmann Archives

## Gay Nineties Review

**T**HIS old print shows a young woman operating one of the electric computing machines during the U. S. Census in 1890.

Each time she depressed a key on the table, the impulse would be registered on one of the corresponding dials on the board in front of her. This cumbersome machine, no doubt, saved many hours and dollars for Uncle Sam.

Great strides have been made in counting machines since the Gay Nineties.

For the utility field, for example, there is this ingenious computer—the Bill Frequency Analyzer. It can help give you an accurate picture

of your consumers' usage situation in a short time.

The Bill Frequency Analyzer classifies as many as 200,000 bills in a single day. It can save you approximately  $\frac{1}{2}$  the cost of having the work done in your own offices.

Why not find out more about this remarkable service?

### Send for FREE booklet

"The One Step Method of Bill Analysis" tells more about this accurate and economical method of compiling consumers' usage data. Why not send for it now?

## Recording and Statistical Corporation

100 Sixth Avenue,

New York 13, N. Y.



# Coming IN THE NEXT ISSUE



## **LABOR UNIONS LOOK AT PUBLIC OWNERSHIP**

For some time now—over a period of about two years—labor unions in the utility field have been showing uneasiness over trends in government policies likely to result in the socialization of utility service. This reaction has been in notable contrast with the top-level thinking of national leadership in our two large American union organizations. Larston D. Farrar, Washington author of business articles, has analyzed this growing disparity and progress of utility labor leaders' thinking along lines critical of public ownership.

## **ZONE FARES FOR PASSENGER TRANSIT. PART II.**

The second instalment of this 2-part series deals with desirability of the zone fare system. The article, which begins in the current issue, deals with a discussion of transit passenger fare trends which leads to the conclusion that management might well undertake surveys with a view to establishing zone fare systems. Graeme Reid, well-known transit engineer, shows why modern equitable transit fares ought to reflect the length of the ride and the cost of service rendered.

## **CIVIL DEFENSE BEGINS AT HOME**

A description of steps being taken in one state to cope with the threat of wartime destruction to community life, including utility service. C. E. Wright, a Florida writer, has studied the pattern of current developments in that state which will probably proceed parallel to progress in other regions. This is one of several articles on local civil defense—the first of which (on New York state) was published in our November 23, 1950, issue.

## **THOUGHTS ON DEPRECIATION ACCOUNTING**

Two well-known authors on public utility accounting, Bernard S. Rodey and J. Rhoads Foster, give us the benefit of their joint thinking in the complicated field of depreciation. Current practices, as well as regulatory theory, are analyzed and discussed in simple, understandable language, giving attention to some of the special problems encountered by public utilities under regulation.



**Also . . .** *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*



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The Leece-Neville Co., Cleveland 14, O.  
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# Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

ARNO H. JOHNSON  
*Vice president and research director,  
J. Walter Thompson  
Company.*

"It is often overlooked that government finances depend entirely on the earnings of individuals and the profits of business enterprise."

FELIX MORLEY  
*Business editor.*

"What many people do not seem to realize is that the so-called welfare state is today trying to assume functions that are not properly political."

REVEREND PETER MARSHALL  
*Late Chaplain of U. S. Senate.*

"Give us clear vision that we may know where to stand and what to stand for, because unless we stand for something, we shall fall for anything."

ROBERT A. TAFT  
*U. S. Senator from Ohio.*

"I am proud of the fact that American union workers are independent enough to vote their convictions no matter how much pressure is put upon them."

GEORGE E. SOKOLSKY  
*Columnist.*

"Peoples do not disappear. Only politics dies. Empires, statesmen, wars wind their tiresome way through history, but the soil remains and the people remain."

HARLEY L. LUTZ  
*Tax consultant, National Association  
of Manufacturers.*

"Deficit financing means more dollars in our pocket than goods on the counter. This soon means goods 'under the counter' and eventually a higher price level."

EDITORIAL STATEMENT  
*Chicago Journal of Commerce.*

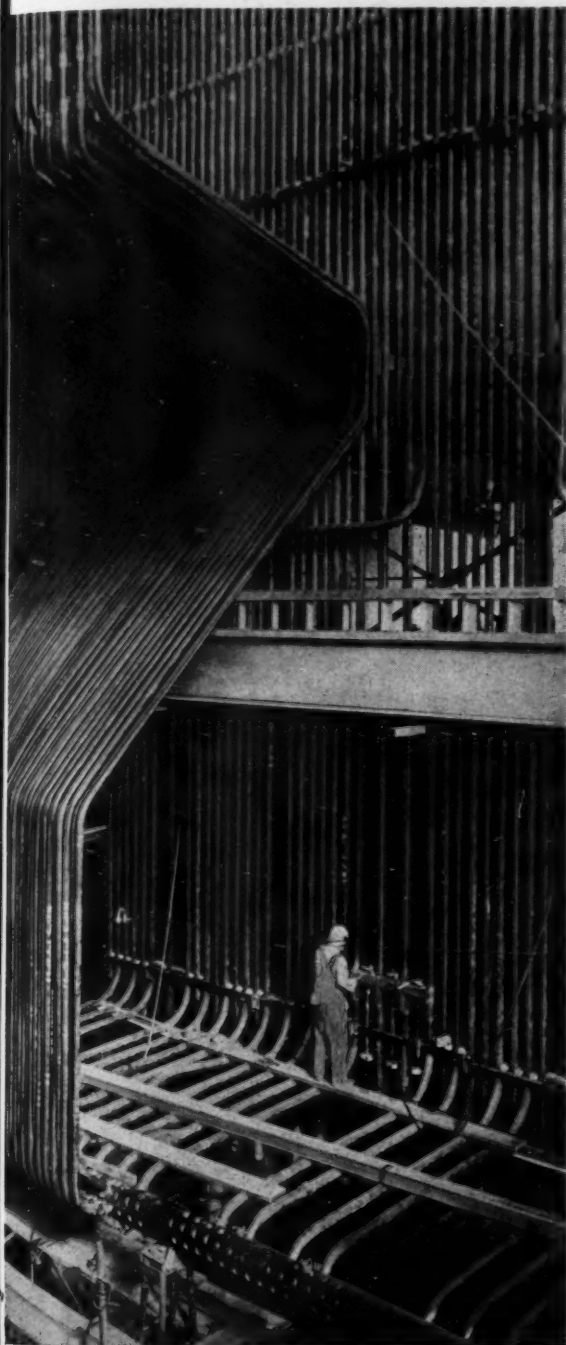
"When the time comes for an American austerity program, it should not begin in the homes of millions of humble citizens. It should begin on Capitol Hill and in the White House."

PAUL V. SHIELDS  
*Chairman, Curtiss-Wright  
Corporation.*

"Most failures in business are because people and companies stray from their objectives. Something like a 5-year plan is needed for the best qualities and abilities of an organization to be realized."

FRANCIS ADAMS TRUSLOW  
*President, New York Curb  
Exchange.*

"Between us and peace and freedom are arrayed our physical, economic, and ideological enemies—Russia, inflation, and Socialism. It will take great courage, enormous sacrifice, and consummate wisdom to win through to peace and still be free."



this "pipe organ"  
plays a  
**POWERFUL**  
tune for you!

This picture shows the "works" of a modern boiler attached to a huge power generator that turns out electricity from coal to the tune of 150,000 kilowatts—enough to operate 800,000 washing machines simultaneously!

In these 12 miles of pipe, rising 10 stories above the ground, water is turned into super-heated steam by burning coal. The steam runs turbine-driven generators which produce electricity for home, farm and factory.

More than half of America's electricity is generated from coal. This past year more than 90 million tons of coal went into making that electricity. That adds up to nearly one-fifth of the entire mine output of bituminous coal in 1950.

America is fortunate in having all the coal it *needs* to make all the electricity it *wants*. It is doubly fortunate in having an industry that can produce that coal in volume—efficiently and economically.

The American coal industry is made up of thousands of independent mine operators. In recent years, these progressive operators have invested hundreds of millions of dollars in new mine properties and mechanized equipment, in coal preparation plants and research—to bring all coal customers an increasingly *better* product for more *economical* utilization.

Today, no industry in America is better prepared than coal to meet the ever-increasing demands of both civilian and national defense production.

Granted a continuing supply of necessary equipment, transportation and trained man power, America's independently owned and operated coal mines will produce all the coal that's needed to continue to power the nation's progress, in peace or war.

**BITUMINOUS COAL**  
BITUMINOUS COAL INSTITUTE  
A DEPARTMENT OF NATIONAL COAL ASSOCIATION  
WASHINGTON, D. C.

DOROTHY THOMPSON  
*Columnist.*

"The rôle that emotion plays in contemporary history can hardly be exaggerated."

PAUL G. HOFFMAN  
*Former ECA Administrator.*

"You cannot compromise with forces of evil. Appeasement is just surrender on the instalment plan."

WILLIAM RANDOLPH HEARST  
*Publisher.*

"American individualism . . . means the conduct of American enterprise by men of experience and proved competence."

JAMES K. KNUDSON  
*Defense Transportation Administrator.*

"Our transport system faces critical days ahead. Only by full utilization of all forms of carriers can shipping demands be met. Make every piece of equipment count."

RALPH HENDERSHOT  
*Financial editor, New York World Telegram.*

"Two world wars brought Socialism to Great Britain because they exhausted that nation economically. Three world wars might bring it to the United States for the same reason."

RAYMOND MOLEY  
*Columnist.*

"It is characteristic of the bureaucratic mind that in an emergency it always thinks of ways to prevent people from doing the wrong things instead of trying to help them do the right things."

EDITORIAL STATEMENT  
*New York Journal American.*

" . . . the New Deal—like the British Socialists—is putting 'controls' upon America under cover of the rearmament program. So here we have the liberty-destroying 'welfare state' in an earlier phase of evolution."

ALBERT A. CREE  
*President, Central Vermont Public Service Corporation.*

"We wish to pay particular tribute to our linemen and other employees of all grades who worked hard, faithfully, and effectively for unbelievably long hours, under very difficult and uncomfortable conditions, on the service restoration task [during the recent violent wind and rain storm]. The spirit, will, and endurance which they displayed established, in our opinion, new high standards in an industry whose employees have always been motivated by traditions of the proudest character."

EUGENE HOLMAN  
*President, Standard Oil Company of New Jersey.*

"I believe that, first of all, we must have industrial and financial strength and high levels of world production and trade. It would retard us in attaining these things, it seems to me, if we were to have any fear of competition in business. Any such fear would certainly run contrary to our tremendous technical achievements and to the record of competitive endeavor. I feel, too, that in these critical times no individual group should seek to gain special ends of its own if, by such action, our joint attempt to assure a peaceful world is weakened."



## Can You Be Confident?

**I**F in conjunction with your next annual meeting—or at some contemplated special meeting—proposals other than routine are to be voted upon—to raise debt ceiling—authorize new securities—grant conversion privilege for convertible bonds, etc.—can you feel confident that your stockholders will support management's recommendations with adequate votes of approval—on time?

Such an important meeting frequently merits provision of special handling—utilizing the services of our proxy soliciting organization as a form of insurance that the meeting will be successfully held on scheduled date.

Our record of performance for the utility industry is outstanding. We invite your inquiry for additional information.

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National or Sectional Coverage

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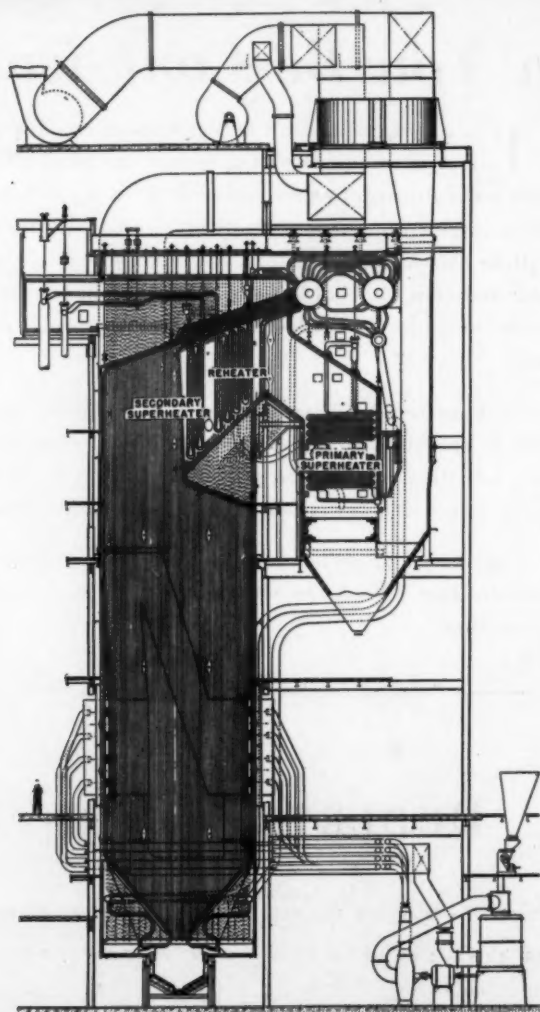
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# C-E REHEAT BOILERS



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# RIVERBEND STEAM STATION

## DUKE POWER COMPANY

The C-E Unit illustrated here, one of two duplicates, is now in process of fabrication for the Riverbend Steam Station of the Duke Power Company near Mt. Holly, North Carolina.

Each of these units is designed to serve a 100,000/110,000 kw turbine generator operating at an initial steam pressure of 1250 psi at 950 F. reheated to 950 F.

The units are of the radiant type with a reheater section located between the primary and secondary superheater surface. A finned tube economizer is located below the rear superheater section, and regenerative air heaters follow the economizer surface.

The furnaces are fully water cooled, using closely spaced plain tubes throughout. They are of the basket-bottom type, discharging to sluicing ash hoppers.

Pulverized coal firing is employed, using bowl mills and tilting, tangential burners.

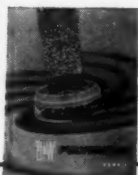
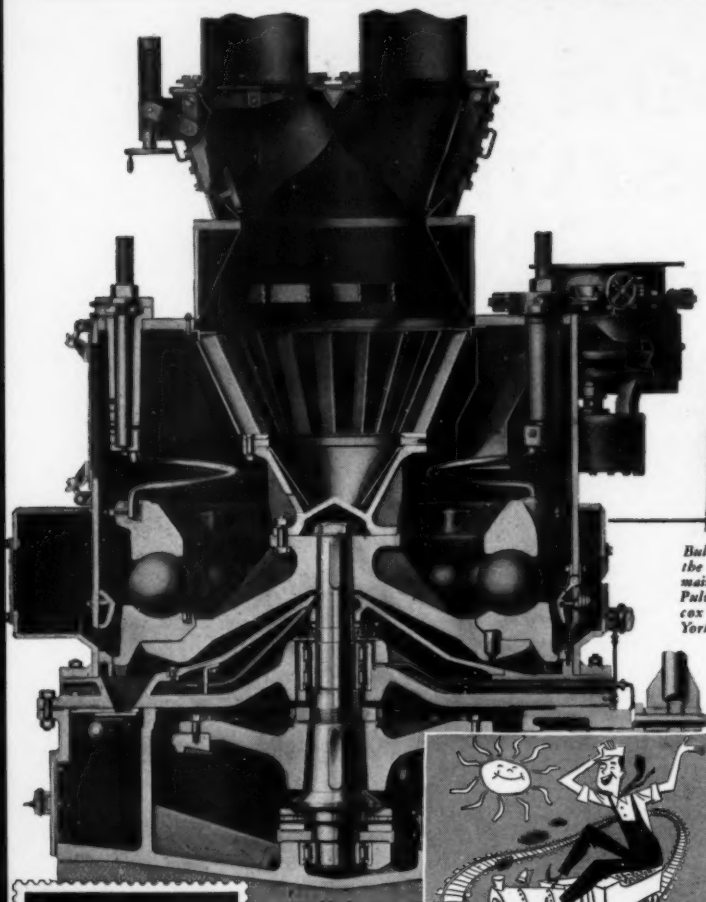
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Bulletin G-57 illustrates and describes the design, construction, operating, and maintenance features of the Type E Pulverizer. Write: The Babcock & Wilcox Company, 85 Liberty Street, New York 6, New York.

A Product of  
B&W Engineering  
for Economy



#### Recirculating Load— Dries as It Grinds

Recirculation of fines within the mill gives repeated, quick-drying contact with large masses of heated air and metal . . . produces proper fineness at all loads, even with coal as wet as it can get. Fines are classified in the mill.



#### Uniform Performance Regardless Of Wear

Balls and grinding rings wear together . . . assure uniform fineness regardless of attrition of the grinding elements . . . fineness automatically increases at reduced loads.

#### Blows Saves

Unique the Ty remark the pri only c to the trained



# A big asset in *low-cost* power generation

The only accurate measure of pulverizer efficiency—and ultimate cost—is a function of availability, plus combined materials and labor maintenance per ton of product over long periods of continuous operation. B&W recently surveyed a representative group of utilities, covering a wide geographical area and broad range of coals. More than 100 B&W Type E mills were reported in service from one

to ten years, and with aggregate product of 25 million tons:

- Average Availability: 96.5% ✓
- Average total maintenance cost per ton: 3.12 cents

It will pay you to remember this outstanding—and typical—history of dependable, low-cost performance when considering your next pulverizer installation.



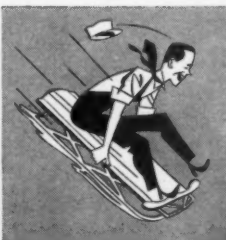
## Blows Clean Air— Saves Wear and Tear

Unique in pressurized operation, the Type E Pulverizer requires remarkably little maintenance of the primary fan, because it blows only clean air . . . is not subject to the damaging abrasion of entrained particles.



## One-Point Variable Fuel —Air Control

Like the accelerator on your automobile . . . assures proper coal-to-air mixture . . . produces desired rate of steam generation over a wide range with coal conditions suitable for sustained high combustion efficiency.



## Low Power Consumption

Ball-and-ring grinding, anti-friction bearings, pressure lubrication, and automatic rejection of ungrindable materials make possible high output with minimum power demand.



## Outstanding Performance Record

Availability and maintenance economy beyond to day's most exacting requirements are proved in over 1300 Type E Pulverizer installations.

Helping Industry Cut Steam Costs Since 1867



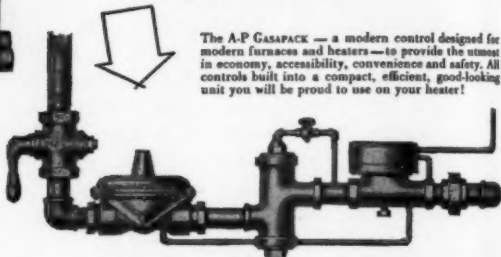
**BABCOCK  
& WILCOX**

## COMPARE THIS NEW ENGINEERED CONTROL...



No longer need you assemble four or five different controls with their connections — requiring as many as fourteen joints! GASAPACK users report that reduction in assembly and inventory costs alone make GASAPACK adoption worth while!

... with this  
"plumber's  
nightmare!"



The A-P GASAPACK — a modern control designed for modern furnaces and heaters — to provide the utmost in economy, accessibility, convenience and safety. All controls built into a compact, efficient, good-looking unit you will be proud to use on your heater!



### Check These Advantages

- ONE unit replaces ALL separate controls with their connections; no "assembly" costs.
- Noiseless operation — no annoying clicks or hum to irritate users.
- 100% Safe Lighting: 100% Fail-Safe Automatic Pilot. AGA listed. Built-in Pressure Regulator; 100% Safety Shut Off.
- Compact size...  $3\frac{1}{4}'' \times 5\frac{1}{2}'' \times 5\frac{1}{2}''$  permits wide latitude in styling.
- Complete adaptability to manual, automatic electric or automatic mechanical control.



's modern Gasapack®  
combines all 5 necessary controls  
into one simple compact unit

With GASAPACK, you have only ONE unit to install, ONE unit, which eliminates the usual pressure regulator, solenoid or diaphragm valve, A-cock, B-cock, and pilot filter, with their clutter of nipples, reducers and other fittings.

Instead, you have a single ENGINEERED control — simple and economical to install, easy to operate, silent, efficient and completely dependable. No wonder users say that it is the greatest advance in gas controls in twenty years!

GASAPACK's completely silent operation; 100% safety features; its unique adaptability; the availability of simple thermostatic controls; its compactness — these are only a few of the reasons why GASAPACK makes such a hit with manufacturers who require a modern control for modern furnaces and heaters.

It will pay you to get the complete story on the GASAPACK. Write for Bulletin G-8 today.



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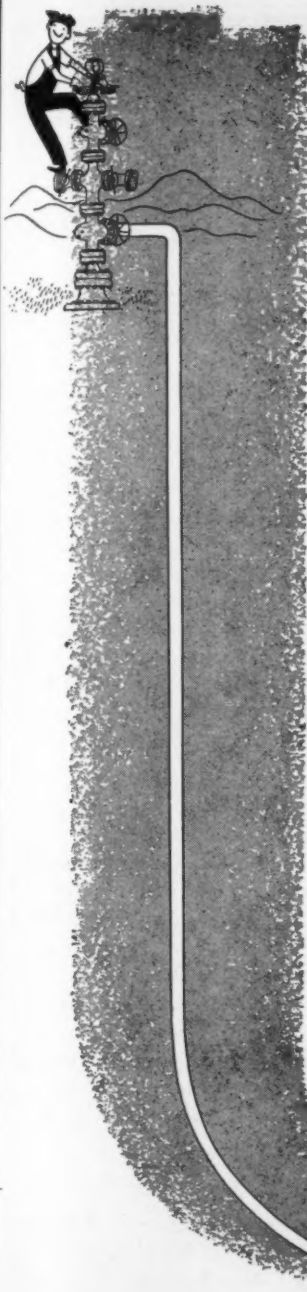
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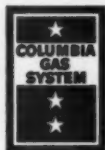
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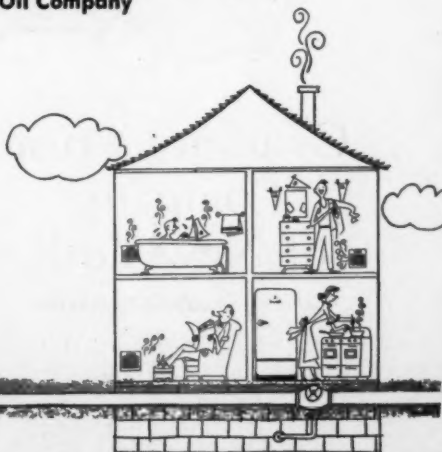


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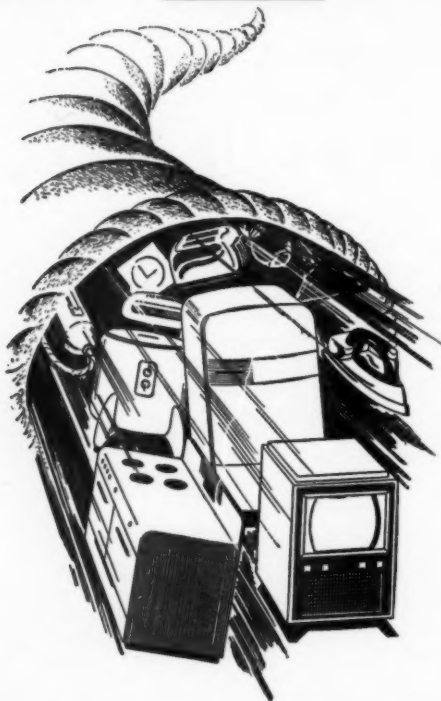
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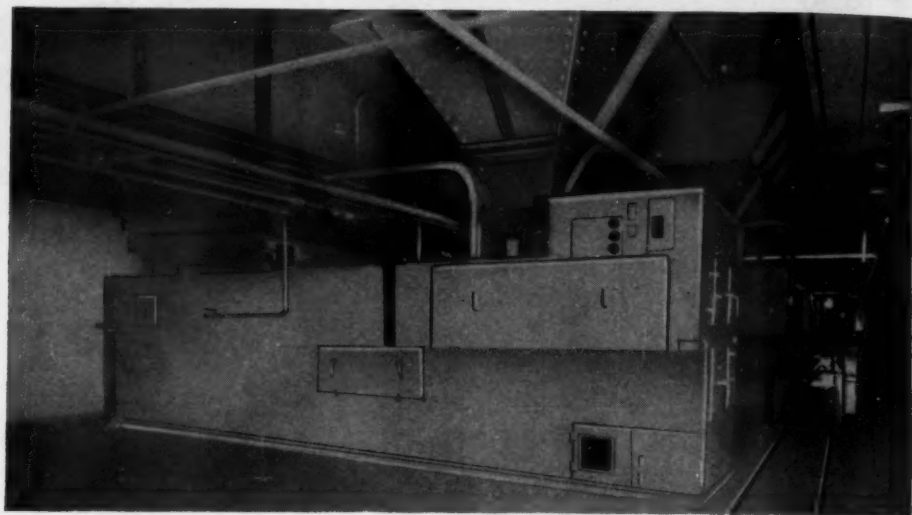
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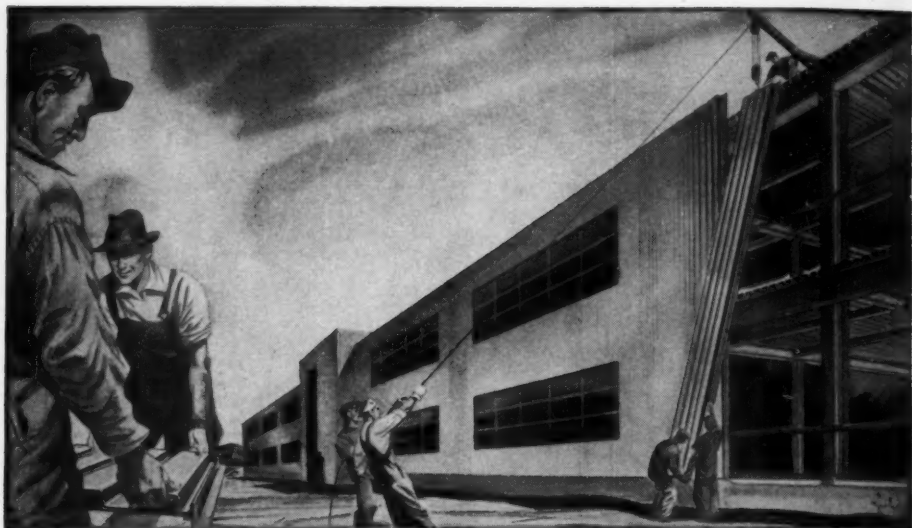
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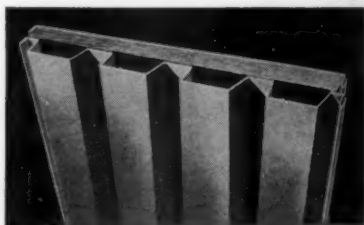
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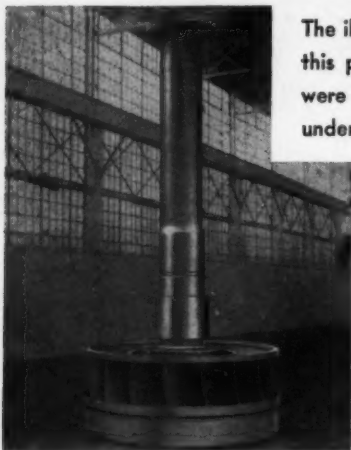
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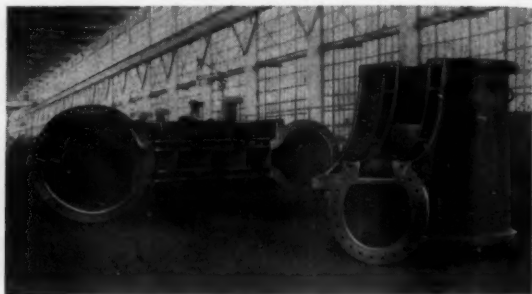
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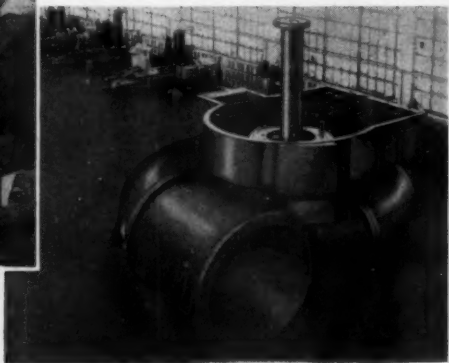


Sections of cast steel spiral casing on assembly floor.



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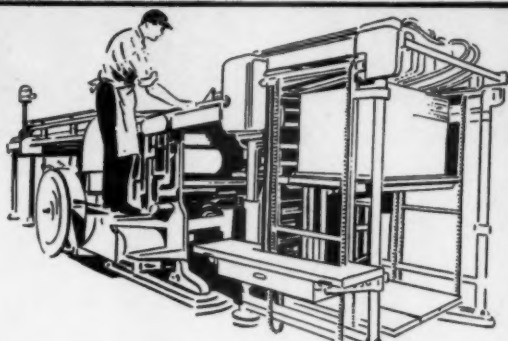
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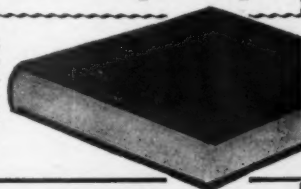
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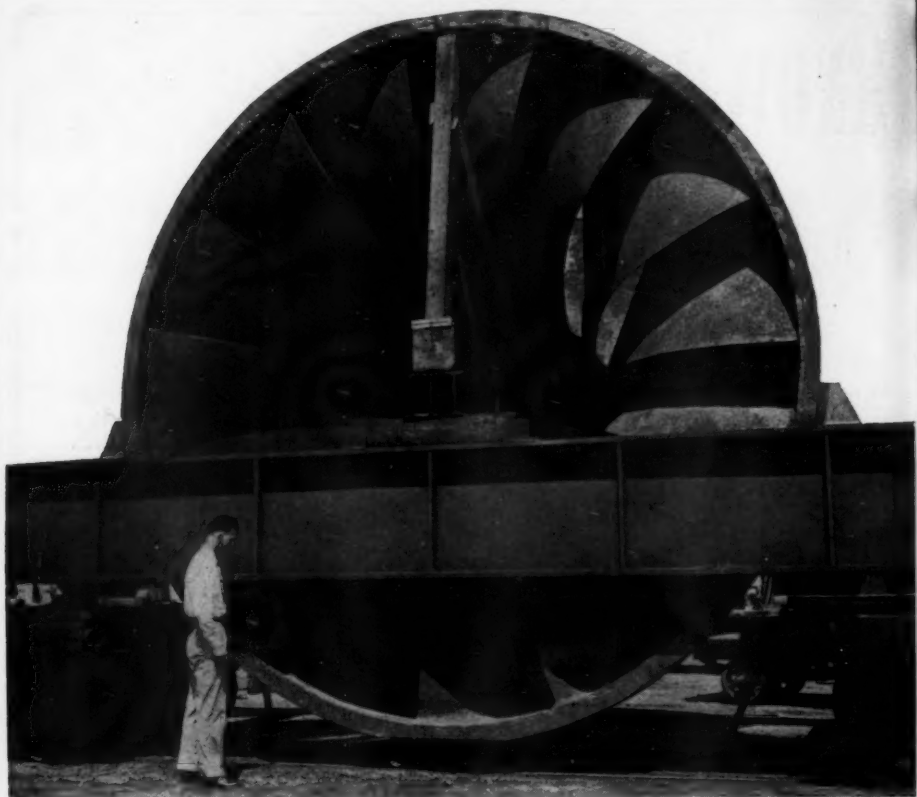
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## Utilities Almanack



FEBRUARY





1	T <sup>h</sup>	† Pennsylvania Electric Association, Transmission and Distribution Committee, begins winter meeting, Pittsburgh, Pa., 1951.
2	F	† Adequate Wiring Bureau will hold annual conference, Cincinnati, Ohio, Feb. 15, 16, 1951.
3	S <sup>a</sup>	† Louisiana Telephone Association begins annual convention, Baton Rouge, La., 1951.
4	S	† American Society for Testing Materials, Committee D-2, begins meeting, Washington, D. C., 1951.
5	M	† First Annual Regional Telephone Seminar will be held, Baltimore, Md., February 16, 17, 1951.
6	T <sup>u</sup>	† Minnesota Telephone Association begins annual convention, St. Paul, Minn., 1951. 
7	W	† Canadian Electrical Association, General Division, Eastern Zone, will hold meeting, Quebec, Canada, Feb. 19-21, 1951.
8	T <sup>h</sup>	† Missouri Valley Electric Association begins industrial and commercial sales conference, Kansas City, Mo., 1951.
9	F	† Annual Illinois conference on highway engineering will be held, Urbana, Ill., Feb. 20-22, 1951.
10	S <sup>a</sup>	† American Society of Civil Engineers will hold spring convention, Houston, Tex., Feb. 21-24, 1951.
11	S	† North Central Electrical Association will hold electrical industries convention, Minneapolis, Minn., Feb. 25-28, 1951.
12	M	† Edison Electric Institute, Electrical Equipment Committee, begins meeting, Cleveland, Ohio, 1951.
13	T <sup>u</sup>	† American Transit Association, Region I, will hold management, small operations, and maintenance meeting, Boston, Mass., Feb. 27, 28, 1951. 
14	W	† Chamber of Commerce of the United States begins regional marketing conference, Pittsburgh, Pa., 1951.



Photo by Harold M. Lambert

## Winter Transit

*Scene at Market and Broad in Philadelphia*

Vol

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Ed

# Public Utilities

*FORTNIGHTLY*

VOL. XLVII, No. 3



FEBRUARY 1, 1951

## Zone Fares for Passenger Transit

### PART I. *The inadequacy of flat rate increases*

A discussion of transit passenger fares and fare structures, with some general observations which lead to the conclusion that managements might well undertake prompt surveys of their properties and operations with a view to establishing zone fare systems which reflect the length of ride and the costs of service rendered.

By GRAEME REID\*

**T**RANSIT deals with people. It deals directly and usually twice daily with a major section of our population. It has an indirect though not inconsiderable bearing on virtually all the people in the community which it serves.

The matter of fares is of particular moment because it touches a tender spot in all our minds, our pocketbooks, and more particularly because every contact calls for a transaction in cold hard cash.

For this reason, the public, individually and in groups, is overly sensitive to the subject of transit fares. This,

\*For personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

in turn, has made the industry oversensitive.

The industry tends to the theory that the less tinkering with this delicate subject, the better. Thus the flat single fare has become sacred. It may be increased only as such, when necessary, thus having an equal effect on the entire community. The fear is that zone fares will completely upset the apple cart, that such a proposal will bring out undue opposition from adversely affected individuals and groups, from business and political associations.

The particular conditions affecting each property and each line must be studied and evaluated. It is fully appreciated that the arbitrary institution of an ultimate zone fare system cannot be accomplished overnight. As a practical matter, it may be better to build up a zone system by gradual steps, starting on long lines, in outlying sections, with minimum fare increments and long overlaps.

**I**t is urged, however, that while this method may alleviate the pressure of opposition it fails to accomplish the full advantages of the ultimate zone system to those who will benefit the most therefrom. In any case, it is imperative to know, as accurately as possible, what will be the results of establishing such zones, what and how many persons or businesses may be adversely affected, those who will be benefited, and the probable results in terms of revenue and service. Any action toward a zone system must be preceded by adequate publicity pointing out the advantages of the zone system and emphasizing the ultimate

greater benefit to the greater number of persons.

### *Public Must Pay More for Service*

**T**HE transit industry's operating income for 1948 was \$43,739,000 and in 1949, reflecting sharply increased fares, came to only \$63,665,000. This latter amount is very little better than 1½ per cent on the industry's investment of some \$3.9 billion.

No business can long survive with so small a return on invested capital. If this condition persists, resulting receiverships will impair credit, reduce both quantity and quality of service in descending spirals with obviously bad effects not only on employment in the industry but also on community developments dependent on efficient transportation.

The evidence is overwhelming that the public must pay more for its transit service if it is to be kept up to reasonable standards. By economic management, the industry has been able to improve its service with revenues falling below cost. Outstanding savings have been the inauguration of one-man operation, production line maintenance, higher speeds, and greatly increased vehicle loads through increased schedule efficiency and larger vehicle capacity. Increasing traffic congestion is reducing schedule efficiency. Vehicle sizes are such as to discourage any further enlargement. This leaves the only alternative of getting more money to pay for added costs.

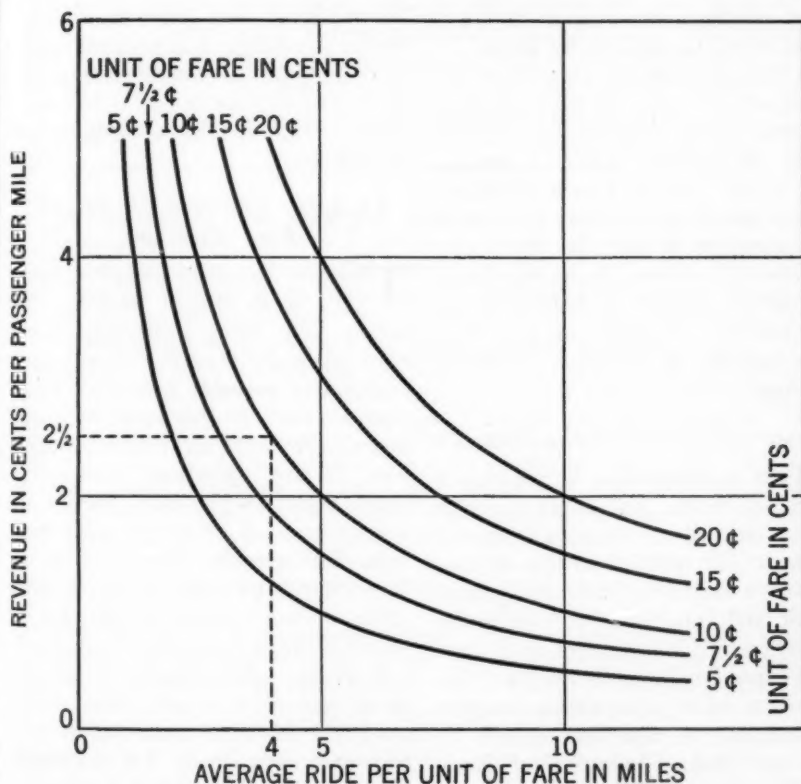
Three basic means of increasing revenue from existing traffic present themselves. These are: (1) public

## ZONE FARES FOR PASSENGER TRANSIT

subsidy through reduced taxes, relief from paving obligations direct contribution out of public funds, or both; (2) a flat fare increase per passenger; and (3) a reorganization of fare schedules in order that charges may be equitably adjusted to the value received and to the cost of service as

applied to short-, medium-, and long-haul riders.

A conception of complete public support of transportation so that there would be no direct charge for its use has been put forward from time to time. It may be argued that each of us contributes a share of the entire cost



**CHART NO. 1**  
**UNIT OF FARE IN RELATION TO**  
**LENGTH OF RIDE AND REVENUE PER PASSENGER MILE**

## PUBLIC UTILITIES FORTNIGHTLY

of our public schools whether we use them or not; the use of our streets and highways is free however much or little we use them; our taxes support innumerable governmental activities which directly benefit only limited portions of the people but which may be of only the remotest, if any, advantage to the general population who have a much greater stake and use for public transportation service than in many of the bureaucracies they are called upon to support by taxes.

While the academic idea of "free" transportation may be impracticable, certainly some consideration may be given to greater public contribution to the cost of transit facilities. In any case, it is no longer reasonable to impose special taxes on the transit industry which are a hang-over from the ancient concept of holding down the earnings of what at one time was capable of being a profitable business.

### *Transit—A General Public Necessity*

MASS transportation is not only a convenience but is in a large part a necessity to those who use it. However, in addition to this, it constitutes a major service to the general public and contributes to community growth which is dependent on it. Current expanding diversification and distribution of city populations require continuance of adequate means of transportation. Congestion of street traffic, now a "No. 1" problem in most cities, would be intolerable but for the operation of vehicles capable of transporting large numbers of persons in a minimum of city space.

Flat increases in fare do, within

reasonable limits, bring in more revenue. This is by far the simplest method of accomplishing that objective and the one resorted to most often. It may be that flat fares up to 10 cents do not appreciably affect short riding, but when fares go above that level, this question should be carefully examined. Transit and labor (which is the biggest part of transit cost) can price themselves out of the market. When higher fares cause a sufficient loss of patronage, a downward spiral may be started, ending where no amount of increase in fare is sufficient to compensate for the resulting loss in passengers.

### *Changing Concepts of Transit Fare Structure*

TRANSIT was, at its inception, basically a short-haul business. Its earlier and more prosperous days were when the average ride per passenger was probably not much more than a mile. On this basis, a 5-cent fare would still be more than enough. Few, if any, operations exist today which could not profitably operate on a revenue of 5 cents per passenger mile. The average ride per unit of fare today is probably, on most properties of any substantial size, somewhere between four and five miles, if not longer. Accordingly, a charge equivalent to the old 5-cent fare would be 20 to 25 cents before any allowance was made for increased costs or declining money values.

Possible disadvantages of flat fare increases, depending on local conditions, are:

1. Reduction in total number of riders. This means a reduction in



## ZONE FARES FOR PASSENGER TRANSIT



### Transit's Diminishing Return

**"THE** transit industry's operating income for 1948 was \$43,739,000 and in 1949, reflecting sharply increased fares, came to only \$63,665,000. This latter amount is very little better than  $1\frac{1}{2}$  per cent on the industry's investment of some \$3.9 billion. No business can long survive with so small a return on invested capital."

vehicle loads with attendant less efficient operation. A portion of this passenger loss may be met with some saving in service. Service reductions cannot, however, be made proportionate to passenger loss, and any reduction in miles operated saves only the out-of-pocket cost. Plant, equipment, capital charges, executive and supervisory salaries, and, in fact, all fixed overhead expenditures may not be reduced by minor service cuts. Finally, reduction in service tends to further reduce patronage which in turn calls for a further reduction in service and starts a vicious downward spiral.

2. Heaviest loss of patronage is invariably in the shorter riding group. Many persons who will pay 5 cents for a one-mile ride will not pay 10 cents for that ride. Relatively few persons will pay 15 or 20 cents for a 1-mile ride however much they may dislike walking. Many who might pay 5 or 10 cents to reach a preferred store or restaurant, or to make a social or business contact, will think twice before paying double these amounts. The short rider is, or at least should be, the backbone of the business. A

single seat accommodating but one 5-mile rider may be sufficient for five 1-mile riders. The short rider is most likely to use the service during off-peak hours when there is ample capacity available.

3. Loss of the short-haul rider means increasing the average length of the ride per passenger. The importance of this cannot be over-emphasized. Increasing the average length of ride per passenger sharply lowers the average fare per passenger mile. This is strikingly illustrated in Chart No. 1, page 137. From this chart it may be seen that for the very short 1-mile rider, the various units of fare constitute that same full amount in the fare per passenger mile. However, when the average ride is increased to  $2\frac{1}{2}$  miles, the 5-cent fare is reduced to a rate of 2 cents per passenger mile and the 10-cent fare becomes only 4 cents per passenger mile. When the average passenger ride has reached 5 miles the 5-cent fare affords a return of no more than 1 cent per passenger mile, the 10-cent fare but 2 cents per passenger mile, and even the 20-cent fare no more than 4 cents

## PUBLIC UTILITIES FORTNIGHTLY

per passenger mile. The dotted line on this chart indicates what is probably the minimum average length of ride for most properties, 4 miles, which requires a 10-cent fare in order to bring the fare per passenger mile to as much as  $2\frac{1}{2}$  cents.

4. The flat fare increase, while seemingly imposing an equal penalty on all riders, actually discriminates against the short rider when viewed in the light of the fare per passenger mile. For example, if a 10-cent flat fare is raised to a 15-cent flat fare, the fare per passenger mile for the 2-mile rider is raised from 5 cents to  $7\frac{1}{2}$  cents, an increase of  $2\frac{1}{2}$  cents per mile; whereas, the fare per mile for the 5-mile rider is increased from 2 to 3 cents or only 1 cent per mile. Thus, the 2-mile rider is penalized two and one-half times as much as the 5-mile rider by this flat increase.

### *Comparison of Fare Per Passenger Mile and Length of Average Ride*

A COMPARISON of fares, fare per passenger mile, and length of average passenger ride, is set up in diagram form on Chart No. II on page 141. In this diagram, the average passenger ride is shown on the horizontal scale at the bottom, the unit of fare on the vertical scale at the left, and various rates of fare per passenger mile are indicated by the sloping lines, the amounts thereof being shown at the top and right-hand side.

By following the vertical line from the figure "6" at the base of the chart, indicating an average passenger ride of 6 miles, to the sloping line that represents a rate of  $2\frac{1}{2}$  cents per mile, and then proceeding from that point horizontally to the left-hand scale, there is found a required unit of fare

of 15 cents. Similarly, an average ride of 8 miles at a  $2\frac{1}{2}$ -cent rate requires a 20-cent fare; an average ride of only 4 miles at the  $2\frac{1}{2}$ -cent rate requires a 10-cent fare.

Accordingly, from this chart, if we know the average length of ride and have some idea of the revenue per passenger mile required, we may readily find the unit of fare that must be charged for those conditions. The average length of ride, while varying widely on different lines and different properties, is fairly constant on any given line or property.

Having the average length of ride and the total number of passengers carried, their product is the total number of passenger miles which, divided into gross revenue, gives the revenue per passenger mile. On most properties this will probably lie somewhere between  $2\frac{1}{2}$  and  $3\frac{1}{2}$  cents. With these two figures determined—that is, length of ride and fare per mile—the chart will show the amount of fare required per passenger. Conversely, if a certain fare has been determined, the chart then shows the maximum ride per passenger permissible under the same circumstances.

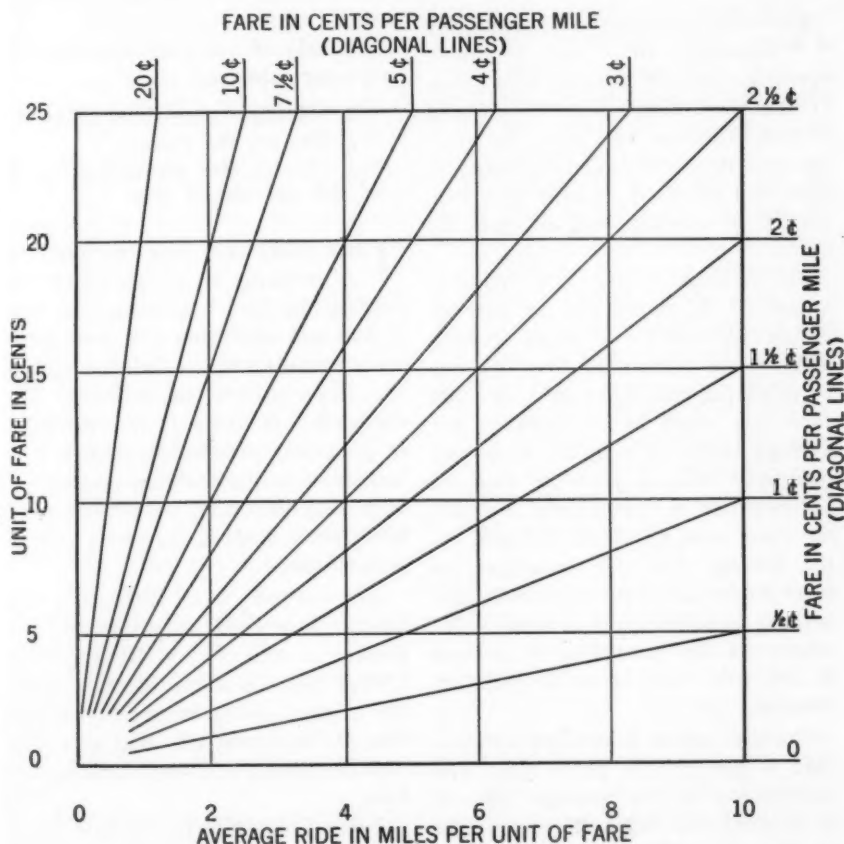
THE revenue per passenger mile required for profitable operation has been maintained fairly constant over the years due to advances in the art and more economical operating methods. The figure of revenue per passenger mile is primarily dependent on the riding characteristics of a line or property and these do not vary very greatly. Just how much the figure will be will differ for each property and for each line.

## ZONE FARES FOR PASSENGER TRANSIT

There are no general statistics available for a determination of an industry-wide average figure. Actually, the managements of few properties have accurate knowledge of the riding characteristics on their various lines from which to ascertain their average ride per passenger. Without this fig-

ure the required revenue per passenger mile cannot be determined. From very general observations, the average ride per passenger, in most cases and on an over-all basis, is probably somewhat less than one-half of the one-way length of line. However, this figure will differ greatly on

3



**CHART NO. II**  
**REVENUE PER PASSENGER MILE IN RELATION TO**  
**UNIT OF FARE AND LENGTH OF RIDE**

## PUBLIC UTILITIES FORTNIGHTLY

individual lines depending on the location of the ride and the basic type of service afforded, and is probably considerably longer in rush hours than during the off-peak period.

It is possible, however, that a revenue per passenger mile of between  $2\frac{1}{2}$  and  $3\frac{1}{2}$  cents would satisfy the needs of most properties.

ASSUMING a figure of 3 cents per passenger mile for profitable operation and reverting to Chart No. II, it is found that a 5-cent fare would be compensatory only when the average passenger ride is considerably less than two miles. A  $7\frac{1}{2}$ -cent fare will permit an average ride of only  $2\frac{1}{2}$  miles.

An average 4-mile ride requires a fare of 12 cents, and an average 5-mile ride calls for 15 cents. Accordingly, if we assume the fixed revenue required per passenger mile, the flat fare rate must be adjusted to the average length of ride. If 3 cents per passenger mile is required, and the average ride is much over 3 miles, flat fares must go above 10 cents. As the average ride per passenger on most properties of any substantial size is likely to be in excess of 4 miles, the reason for the current trend to fares of 10 cents and above is certainly obvious.

For the reasons heretofore stated—that is loss of the short rider and lengthening of the average ride—it is believed that basic fares in excess of 10 cents, while perhaps a necessary expedient to tide over a peak cost period, do not offer a permanent and economically safe solution to the problem.

Assuming this premise, the only alternative is to reduce the length of average ride per unit of fare to a figure that will give a reasonable revenue per passenger mile. A 10-cent fare calls for an average ride of less than 3 miles on a  $3\frac{1}{2}$ -cent per passenger mile basis; of  $3\frac{1}{2}$  miles on a 3-cent per passenger mile basis; and of 4 miles on a  $2\frac{1}{2}$ -cent per passenger mile basis.

Methods of reducing the average passenger ride are:

1. Stimulate more short riding.
2. Shorten the routes.
3. Shorten the permissible length of ride per unit of fare.

THE only effective method of stimulating short riding is by holding the fare low enough so that it does not constitute a serious monetary consideration to balance against the inconvenience of walking. The shortening of rides is not generally or politically practicable, though it is believed that the outlying portions of very long lines may be competing at too great a disadvantage with private automobiles.

For example, from Chart No. I, a 10-cent fare yields only one cent per passenger mile for a 10-mile ride. Unless there is a considerable quantity of short riding in an outlying section the operation into that area may well be running at a very considerable loss.

From Chart No. II, the fare for a 10-mile ride at  $2\frac{1}{2}$  cents per passenger mile should be 25 cents. It may well be that the public would not regard such a price unreasonable for a 10-mile ride, more particularly if the

## ZONE FARES FOR PASSENGER TRANSIT

rates for shorter rides are proportionately reduced. If, however, such a fare for the long rider results in further loss of patronage from outlying sections to the private automobile, then a case could be made out in justification for reducing or eliminating this outlying portion of the service and thus shorten the line.

**A**N illustration of the arbitrarily shortened line is found in a number of cities. In such cases city lines may operate only within the municipal limits. Connecting lines extend into the surrounding suburban area. There have been some apparently successful experiments with the operation of short low-fare lines superimposed on a regular system in downtown city areas. The success of such operations must, however, be evaluated not only in terms of the individual lines but also in connection with the effect of these lines on the system as a whole.

If the short line takes short riders from the longer lines, then the average length of ride on these longer lines is increased to their substantial detriment. Even though the short low-fare line operates at some profit, a portion of its income must have been taken from the longer line. Unless the service on the longer line is reduced sufficiently to save out-of-pocket costs equal to their loss of revenue to the short low-fare line, nothing has been gained.

There are a number of properties that have experimented more or less successfully with the superimposing of long express, extra fare lines on the local system. This is an ideal, though only a partial, solution of the

problem and then only provided that there remains sufficient short-haul business on the local lines to support a reasonable frequency of service, and further provided that the express line fares are sufficient to pay for the service. This is, however, an effective method of reducing the average length of ride on competing local lines. A compensating factor in the operation of these longer express lines is that their increased speed tends to substantially decrease unit cost of operation and affords a better service for which riders are willing to pay compensatory fares.

An added attraction has been the usual practice of limiting loads to the number of seats available. The fact that such services are successfully operated in direct competition with local lines having fares of half and less than half of the express lines' fares is clearly indicative of the public's willingness to pay for value received. However, this is a partial solution at best and is applicable only under circumstances prevailing on relatively few properties.

**T**HE third alternative is to shorten the permissible length of ride per unit of fare; that is, institute a zone method of fare collection or eliminate transfers and cut the long lines into two or more short lines. Fares collected by the zone system have been in operation on a number of properties for many years. Probably most notable of zone systems is that of Public Service Coördinated Transport of New Jersey, which operates long lines throughout the state. This company early established the basic prin-

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ciple of a single fare limited to a ride within each municipality served, an additional full fare being charged for each additional municipality into or through which the utility's passenger rides.

However, by this means a 5¢-basic

fare was maintained for many years.

In the concluding instalment of this article, there will be a discussion of many of the major factors and problems to be met within the design and practical operation of fare zone systems.

PART II of this article will appear in the next issue of the FORTNIGHTLY.



### Scientific Progress under Capitalism

**T**HE highly constructive interplay of educational institutions, professional men, industrial management, and public support has all taken place under our system of private enterprise. The incentives have been many and the rewards have been so ample that everyone has benefited. In other words, the statement can be made that in the United States where applied science has made its greatest strides, we enjoy the highest standard of living of any country in the world. This is strictly an accomplishment of capitalism, to use the term commonly discussed these days. In order to avoid any doubt as to the all inclusiveness of the capitalist influence, allow me to point out that our private educational institutions are themselves organizations of capital of major proportions.

"I am sure that anyone familiar with the rapid-fire changes which applied science has brought out would concede that there should be social changes that would keep pace with technological advancement. The industrialist of the last half century, who insisted on looking backward, did not last long in the rush of events. The forward looking industrialist expects, as a matter of course, that those responsible for social development will carry their share of the burden. It is a well understood truism, even in the turbulent fields of applied science, not to tear down the old plant until the new one is running successfully. I cannot qualify as a political scientist or as a sociologist, but it seems to me that in these fields, even more than in industry, we should look before we leap."

—JAMES A. RAFFERTY,  
Vice president, Union Carbide &  
Carbon Corporation.





## Today's Tools for the Bride Of Tomorrow

At homemaking class, she often has to work with old appliances—Southern California Edison teams up with manufacturers and dealers to keep schools equipped with the latest, at no maintenance cost.

By JAMES H. COLLINS\*

**W**HEN Grandma was a girl, and the schools taught chiefly the three R's, it was called the "cooking and sewing class," and considered pretty fancy education. What we now call "progressive." Not half the schools had it.

Through the years it has been called "domestic science" and "home economics" and other things. Always the new name reflected a broadening of the teaching.

Today it is so broad that, in southern California at any rate, it includes patio living. And the name is "homemaking." In seventh and eighth grades, all the girls receive a certain amount of instruction, and in high schools and junior college it becomes elective.

In this department of the public

schools the Southern California Edison Company has lately discovered a new market for appliance dealers and manufacturers, and of course a new place to build load.

The homemaking department is a future customer market, because a good many of the students now passing through the homemaking courses will in a very few years be married, and deciding the purchase of appliances, and what they worked with in school is bound to influence their decisions.

At war's end, and when appliances again became available, Edison's manager of domestic sales got to thinking about the large numbers of prewar electric ranges in the schools throughout his territory.

Some of them were almost pre-World War I, because an electric range really never wears out. With a

\*Business editor and author, Hollywood, California.

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few new parts from time to time, it goes along like a dollar alarm clock. These old ranges would cook, but they were of another generation, and the students learning to cook on them were not enjoying the appliance advantages of their own day.

**T**HIS is almost a universal handicap in vocational and business training. The student taking a business course in a public or private school is generally taught with machines and equipment that date back. Schools cannot afford to install the latest devices, as can business offices. So the student finishing his course, and landing a job, steps into an office where the equipment is new and strange.

A good salesman was assigned to study school homemaking facilities, and report upon what Edison might do to help modernize them, and here is the general situation found in the majority of communities, large and small, throughout southern California—and which undoubtedly exists over the United States.

Equipment was generally out of date, lacking in the latest appliances, such as food mixers, dishwashers, garbage disposal units, clothes washers, ironers, dryers.

Classrooms were also out of date, crowded, badly arranged for teaching and work. Originally there had been a roomy place provided in the school when new, but as appliances had been added from time to time, they were placed in any available spot—no plan.

Nobody was against modernization. Students handicapped by using old equipment in crowded classrooms, teachers, school boards—all were halted by the road block of "No

money." In the many demands made by growing school populations for more buildings, more teachers, more equipment, there was seldom an appropriation available for up-to-date household appliances.

**E**DISON executives studying the report decided that the company must work out a plan that would not only bring these facilities up to date, but keep them so by yearly replacements; moreover, one that would equip the schools with appliances never before available for teaching.

The plan is simple enough in outline, but involves considerable "selling" to appliance manufacturers and retailers.

Edison's sales department goes to the schools, surveys their needs for equipment, prepares a drawing for complete rearrangement of the classroom, which is almost always necessary, and offers to have the appliances installed by a local dealer at a special price. This price is so favorable that school authorities are interested in finding the funds, and generally do so.

Every year thereafter, without any further investment, the local retailer who made the original installation comes in and replaces everything without any charge at all!

The utility executive who remembers the problems that arose from appliance selling will realize that this involves considerable explaining to manufacturers and dealers.

But so far, Edison has had excellent coöperation from both the industry and the trade, because it has followed through, making those explanations.

## TODAY'S TOOLS FOR THE BRIDE OF TOMORROW

This plan was laid before one regional manufacturer of ranges, at the start, with the explanation that the company was looking to future customers, who would be customers for ranges as well, and that coöperation from his dealers would be secured by interesting them in the future customer objective, and showing them how to make present sales through the replaced appliances that would be coming back yearly.

THIS manufacturer agreed to make the special price to schools, and soon other appliances were added, other manufacturers joined in—today Edison has the coöperation of practically the whole appliance industry. Gas appliances are also available on the same terms—in Edison territory it is the rule that both shall be installed equally, one gas range for one electric.

The appliance retailer has been quick to see the future customer angle, and make what is roughly an investment of his profit.

"How long do we have to wait for these schoolgirls to grow up, marry, and become customers?" is a natural question. It led one homemaking teacher to investigate, and she found that 72 per cent of her old students were married within two years after graduation.

But the retailer can begin selling as soon as the first appliances he in-

stalls in schools come back within a year.

To illustrate with an electric range. When he replaces one in a school, Edison furnishes him with a list of perhaps a dozen homes in his territory that already are wired for ranges. These are removals, new homes wired "in case," and so on. The wiring cuts down installation costs.

There is a way to go about making such a sale. A caller at the back door asks if he can take measurements for a home freezer. This is an appliance that still needs selling, and the housewife generally says, "Why, we have no room for a deep freeze!" To prove that she is right she allows the caller to take measurements. "No, you haven't any room," he admits, "but I see your home has been wired for an electric range—now it just happens . . ."

FOLLOWING another plan, the dealer inserts a 2-line classified ad in his local papers, "Bargain—electric range used only for demonstration." This brings people in, the question of financing arises, it is not easy to arrange on used appliances, but on a new range, now . . .!

On this basis, one year-old appliance taken from a school may result in several sales, and itself be unsold for weeks.

Backed by this teamwork from the



**Q** "IN most high schools and junior colleges homemaking becomes elective, and a determining factor in the size of classes is the equipment. The girls shun obsolescent equipment, but are eager to work in an up-to-date classroom—in fact, feel about that just as they will when they become wives."

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industry and the trade, Edison sales people approach the schools. It is easy enough for anybody with a pair of eyes to locate the classrooms that have fallen furthest back into obsolescence; the equipment is dated, old, ancient in various degrees; the rooms are crowded, badly arranged, badly lighted; courageously, teachers and students have made the best of what they had or could obtain.

The teachers are of course hospitable to modernization suggestions, and when shown practical plans and cost estimates are ready to go before the school board. In this field of selling, Edison men say, there is always a "spark-plug" individual who will be most active in getting behind a plan. It may be a teacher, a superintendent, a parent-teacher member, or the janitor who has the hard job of keeping an antiquated classroom in some kind of order.

**T**HE wide variety of equipment required in homemaking classes is indicated by this list of activities that go to make up the teaching in southern California.

What Grandma would say to the modern "cooking and sewing" class is something to be left to the imagination:

### *Food Room Activities*

Nutrition and health study.

Meal planning, marketing, preparation, serving.

Food preservation, refrigeration, freezing, canning.

Kitchen planning, neatness, homelikeness, efficiency.

Home safety, accident preventives.

Proper selection, use and care of cooking utensils, kitchen tools.

Care and use of ranges, refriger-

ators, home freezer, small appliances.

Care and use of laundry equipment, soaps, detergents.

Care and use of electric ironer, irons, ironing aids, floor polisher, vacuum cleaner and attachments.

Cleaning equipment, brooms, mops, brushes.

Setting attractive breakfast, luncheon.

Career study.

### *Patio Living and Dining Room Activities*

Hospitality, social arts, home welfare.

Good housekeeping and time management.

Home furnishing, arrangement, interior decoration.

Table setting, formal dinners, teas, special occasions.

Flower arrangement, table decorations, center of interest.

Study of home and family relationships.

Community relationship, making and keeping friends.

Planning for marriage.

Career study.

### *Clothing Room Activities*

Clothing selection, design, and construction.

Wardrobe planning, budgeting.

Textile study, design, and pattern construction.

Care and use of sewing machine.

Interior decorating, curtains, drapes.

Care and repair of clothing.

Dyes, alterations, making over children's clothing.

Personal development, improving personal appearance.

Good grooming, home nursing, child care, handicraft, care and use of household repair tools.

Career study.

All of which prepares the rising generation to make a home—and also create opportunities for utility "load."



### Building Up the Future Appliance Market

**"T**HE homemaking department is a future customer market, because a good many of the students now passing through the homemaking courses will in a very few years be married, and deciding the purchase of appliances, and what they worked with in school is bound to influence their decisions."

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**T**HE school population of Edison territory totals several hundred thousand students, in every size community. The girls all receive homemaking training during the seventh and eighth grades. In a classroom accommodating twenty to twenty-five students, the period will be one hour daily, five days a week, with from five to seven classes each day. So that even a small community will have better than a hundred young misses learning about appliances, better or worse.

For any community anywhere—multiply by schools. The answer will be future appliance sales and load.

In most high schools and junior colleges homemaking becomes elective, and a determining factor in the size of classes is the equipment. The girls shun obsolescent equipment, but are eager to work in an up-to-date classroom—in fact, feel about that just as they will when they become wives. So, in a community where equipment has

been allowed to go to pot—fewer future customers, less future load.

In developing prospects, Edison's school counselor, T. L. Bowles, started by going calling throughout the company's territory, looking into homemaking classrooms, getting acquainted. Lloyd Bowles is an old hand with Edison, started as an electrician and meter reader in 1916—and last spring was among the ten Los Angeles salesmen who received the first "Oscars" awarded by the Los Angeles Sales Executives Club. Indicating that in this schoolwork a good salesman can find a new career.

**T**ODAY, the first move often comes from somebody in a school system who has heard about the work, and asks for a survey. Also, Edison people are constantly talking to teacher and parent-teacher groups, so that word gets around.

After calling on teachers, school board members, and other people in-

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volved in a modernization program, and discussing requirements, funds available and like details, looking over present facilities and space, and outlining a budget, the salesman hands over data and perhaps rough sketches to Edison's kitchen designer and architect, who draws up a scale model.

This is a complete job, showing every appliance, and space for students at work, also modern equipment for clothing classes such as mirrors, a child care center, blackboards, closets, brooms, and mops. Everything from the kitchen stove. Details of this general plan are pictured in separate water-color sketches.

It is large-scale, complete, and attractive, because with this plan the salesman returns and explains to the school board as well as the teachers who will work in the new quarters. They often point out improvements, which are generally embodied in the working plans.

**I**N this phase plenty of time is needed, smiling patience, a mind open to criticism and changes. Problems bob up and are ironed out, more individuals than had been counted on appear and speak their pieces; your customer is a community; a single "No!" anywhere along the line stops everything.

So it pays to spend some money on drawings. Seeing is believing. The decision turns on how well the community understands the project. Plans are easel size, and lately the salesman uses small models of ranges, refrigerators, washing machines, and other appliances, and sets up a miniature classroom portraying the plans, and

this is surprisingly effective in clearing up misunderstandings.

**T**HESE models are small enough to carry in a car, and were made of wood, metal, and plastic by the Edison window display department. For hundreds of windows in branch offices the company has a central staff that goes out installing displays.

What appliances and whose makes shall be installed?

The school authorities decide, selecting them from the ones that come under the manufacturer-distributor-dealer coöperative plan.

Not only the major appliances are needed, but the traffic appliances like irons and toasters, along with utensils—everything found in a well-fitted kitchen.

The new classroom needs new curtains, linoleum, furniture, unforeseen accessories.

Typical modernization project showing what it takes was the town school that had no homemaking department, and had not more than \$1,500 to finance a building as well as equipment. Edison people really go to work on a problem like that. It is a challenge. Through their experience with many problems they have various ways of skinning a cat. And a good solution attracts attention and makes friends. The company's home economist, kitchen designer, and other specialists go along when plans are shown, to answer questions and contrive.

What—no building?

There were two abandoned bungalow classrooms. Plans were supplied for throwing them together. The work was done by students—it made an



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interesting project for upper-class boys.

Available funds purchased four cabinet sinks, two electric and two gas ranges, a refrigerator, an automatic clothes washer, and various small appliances.

Town people contributed furniture, utensils, linen.

Curtains and the like were made by students in clothing class.

WHEN everything was ready, there was an open-house party, which is an important function in this modernization work. Students prepare buffet dishes, the school orchestra tunes up, everybody wears best clothes and becomes host. Parents come, teachers from other schools, maybe school authorities from communities where modernization is still being discussed. There are a hundred different kinds of good time had by proud parents, appreciative students, and teachers. Seeing is believing that youngsters really learn something in school.

It is something to be proud of when dark, crowded, out-of-date classrooms, with obsolete equipment, are replaced with roomy, well-lit quarters, and the latest appliances. The equipment generally surprises parents when they come to the open house, because there are conveniences not yet found in all homes, like garbage disposal units, dishwashers, home freezers, ironers, dryers, mixers, sewing machines. It is considered good teaching to have students work with equipment that may not today be common in homes, but which will be so in a few years.

The appliance man dropping in gets ideas not only about future customers, but customers right now, who want these new conveniences in their homes.

Maintaining contacts with schools after modernization has many angles.

For instance, the social life should go on after the first open house, because parties make teaching real. So ideas are passed around.

Father's and Daughter's Day is a typical party. The girls prepare dishes, from buffet lunch to a dinner, and the Dads are invited. They come and balance plates on their knees, get acquainted with other Dads, are shown around, probably get needled on a new range or a dishwasher, boast about their girl's cooking.

THEN there is the Home Freezer Exhibit at the appliance store. The home freezer is still one of those conveniences that have to be sold. The dealer gives the homemaking class some money every month—say \$10—and the girls prepare dishes to be put in a freezer at his store, where they are seen by customers; the girls themselves bring in friends. After four weeks the dealer takes the food home, or parcels it out to employees, and the girls are financed for another display. This has been found an excellent way to stimulate interest in freezers, but frankly it involves considerable work, and not all dealers want to take the trouble.

The old sewing and cooking class ain't what it used to be.

Under this utility company plan, the three R's become Range, Refrigerator, and Rags!



## Planning Now for Man-power Shortages

This author, experienced in analyzing business problems, offers a simple general program for coping with a threatening situation.

By ERNEST W. FAIR\*

**W**AR or no war, within the next six months it is now certain that business of every kind and description is going to be confronted with man-power shortages everywhere before many weeks have passed in 1951.

Operating public utilities are in a doubly vulnerable position during any prolonged man-power shortage because of their rigid cost restrictions and service obligations. But some forward-looking steps can be taken now, as distinguished from later on, when war boom employer recruiting becomes more pronounced.

There are few, if any, public utility executives throughout the country not faced with the problem of where to replace men and women, either taken from their staffs or who leave voluntarily for big-paying "defense" jobs

elsewhere. If management waits until the last moment to tackle this problem, it could find itself slipping into a most difficult position.

The first step toward assuring continued company operation is obviously an all-out study of every staff position.

Each job needs careful and thorough analysis. An individual check-up on each employee holding each position is the main objection of such a survey.

**T**HE check-up can determine, first, who will be called to military service through reserve positions, the draft, and voluntary enlistment. This information will point to the most decisive and immediate need for replacement planning. Not only can it be determined who will be leaving, but in so far as it is possible to do so, some idea as to how soon such positions

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must be filled might be a very desirable line of inquiry.

THE second step calls for an analysis of each employee, and his or her position, to determine which are very likely to be taken away by a possible civilian draft for defense industry. This we did not have during World War II. But indications are strong from Washington at this time that such a program is being formulated for possible use. If the scope of the defense effort is so great, and very likely it will be, that workers as well as military personnel may be called up, any industry must be prepared to cut back its personnel requirements, if the worst should come. And, in that case, a retrenchment plan can be a lifesaver for an officer in charge of operations.

In such consideration, careful analysis is in order for all staff members who are likely to leave voluntarily for other jobs through lure of higher wages, or for other reasons, or pressures which may be brought to bear upon them. This requires a keen understanding of personnel. It calls for close coöperation between supervisory personnel and the executive staff.

When such an analysis has been made against the present normal strength staff and the results noted on paper, management can thus provide itself with a clearer picture of what can be done for the immediate future, than if everything is left until the emergency actually arises.

The next step, while such a step is still permissible, is to seek possible replacements for such personnel the present staff will lose. Needless to say,

the survey might well be conducted on a very confidential basis so as to avoid misunderstanding or undermining morale. The real objective is not to get anybody's job; but simply to get a replacement if the present occupant cannot or will not be available to carry on some time in the future. But "shop gossip" can often put a very unpleasant light on such situations. When misunderstandings do occur, perhaps the best course is to discuss the operation frankly with the parties concerned and, having won their confidence and clear understanding, bind them against spreading any more false alarms.

It may also be wise to consider whether or not consolidation of various staff jobs can be brought about in the near future. This method can be used in some measure to handle the man-power shortage problems which might otherwise loom as almost insuperable obstacles. It is certain that if the situation grows more serious, some activities will be more curtailed than at present. Shortages alone will create situations requiring fewer personnel in given spots throughout the operating utility setup. Sales and home service forces may have to be curtailed somewhat.

Where it is possible to consolidate positions being vacated (through the changing man-power situation in the future), with positions very likely to remain permanent for a long time to come, replacement worries can be kept at a minimum.

In considering actual replacements, however, management might as well take the practical view that it may be

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up against terrific competition from all kinds and types of industry for available prospective personnel to fill vacancies. Some of it will be high-paying "war boom" industry. Even the anticipated "freezes" in wages and jobs by government order do not entirely dispose of the problem. World War II experience demonstrated that there are a lot of indirect ways for "boom" employers to win labor recruits at the expense of stable and cost restricted industries such as utilities. The nation is very definitely moving into a labor market. Should manpower controls be rigid, the difficulty of securing replacements will become very great.

**T**HERE will, however, be two considerable reservoirs of possible personnel available: (1) the physically handicapped; (2) those in the older age group but still able to perform a reasonable amount of work. Where management is able to shift job responsibilities and work around so that remaining personnel can handle more difficult and heavy work, it may be surprising to discover how many people can be used from these two groups to fill such vacancies.

This requires a great deal of prompt planning. It may necessitate an almost entirely new schedule of duties required for each position in the firm's setup. Obviously, it would require the shifting of more burdensome work to members of the staff still remaining and physically able to handle such work. Such shifts can make it possible to create practically new jobs which the foregoing two groups of people can fill satisfactorily.

FEB. 1, 1951

We have another group which probably will be available for very short-term jobs. That is the teen-age group, not old enough to be subject to military or industrial draft. Any plans to employ teen-agers must, of course, be restricted to a short-range basis. All such planning must take into consideration the possibility not only of another world war but possibly a very long one. These programs, if developed for the younger age group, call for a plan of replacement periodically.

The use of any of the three groups named above requires readjustments in the employee program also; readjustments to account for less skills, decreased physical stamina, and limited abilities to perform certain jobs. It would seem to call for very close study of possible use of such mechanical equipment as the company may be able to find, to lessen requirements of strength in work within the organization. Such equipment will not be available tomorrow—its possible use must, therefore, be determined today.

**T**HE last but most obvious step in any program to cope with future man-power shortage is to begin an immediate quest for such replacements. Other firms and other industries will be after the same people, of course. If a public utility company can secure commitments in advance and make replacements as soon as they occur, it will be able to obtain the top quality from each group available. The advantages of public utility employment, with its enviable record of steady, well-paid jobs through good times and bad, are arguments which

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still command respect in the labor market. A few months or even weeks hence, it may not be so effective against the ready promises and high-money lures of the "boom" job recruits. In other words, nailing down a reserve supply while the nailing is good is simply a dictate of common sense procedure.

Interviews among the physically handicapped, persons at present on social security, and even the groups today in high schools can provide a knowledge of exact individuals available in the particular operating area. They can also give management a good idea of the problems it will encounter within the organization in adjusting job requirements to such individuals, when the time comes to use them.

Whether or not the reader, as an individual, believes that World War III is imminent, these measures seem to be clearly indicated for the future smooth operation of any utility. If, happily, a general war does not come, such planning is not lost motion or wasted effort. It would provide a closer picture of the personnel prob-

lems. If war does come, the alert management will be just that many steps closer toward solving what may well prove to be the very worst and prolonged man-power shortage in our national history.

SECURITY holders will even expect and have a right to expect that wise business management takes no unnecessary chances. Though business volume activities may be curtailed by the conditions to be brought about, such as shortages, the front office must expect to be held responsible for making plans to handle the situation.

To sum up: War or no war, we are certain to have man-power shortages during the year we have just entered.

The closer to actual war we come, the greater will be those man-power shortages.

If we are to be in business when real peace returns to the world, isn't the sensible course to follow one of planning now for the handling of these man-power shortages before they occur?

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### Laudible Careers in Government

**"O**FTEN our state legislatures and our state governments are criticized as mere amateurs, when compared to the professional attitudes and abilities of the Federal government. Now I bow in gratitude to some of the so-called, and properly called, 'career men' in the Federal government service; but not to all of them. It is one thing to make a career out of faithful service to the public as a bat boy, a coach, or an umpire under the rules of the American game. It is an entirely different thing to devote a lifetime to trying to change the rules of the American game to suit Marx or Stalin. All in all I prefer the honest enthusiasm of honest amateurs in state government to the scheming of some gifted professionals."

—BRUCE K. BROWN,  
President, Pan-Am Southern  
Corporation.



## Do We Need a National Recreation Policy?

*In the light of recent suggestions that the Federal government interest itself in a national recreation policy, this author has examined certain aspects of cost estimation for multipurpose projects where recreational benefits have been noted as a factor. The conjectural nature of such estimates is discussed along lines which will be familiar and of special interest to public utilities.*

By JOHN J. HASSETT\*

EYEBROWS were lifted and even a certain amount of fun was poked at a recent recommendation to President Truman that Congress ought to weigh the need for a "national recreational policy." The suggestion was made among some seventy recommendations contained in the recent report of the President's Water Resources Policy Commission.

There was some wonder as to why such a commission felt that a recreation policy was germane to its purpose. The comic columnists thought the Federal government might be undertaking the job of deciding on such issues as outdoor *versus* indoor sports,

be-bop *versus* long hair music, and other playful, if not trivial, controversies.

Of course, the WRPC had a more serious purpose worthy of consideration even during these critical times. And its objective was within the reasonable scope and purview of its study, if considered broadly enough. As a matter of fact, the way the factor of "recreation" has been considered thus far, in attempting to estimate the monetary value of benefits for multipurpose Federal projects, suggests that Congress might well consider a study of *some* kind of a policy, looking toward a common sense approach to this problem. And, if we must have our fun with bureaucrats,

\*For personal note, see "Pages with the Editors."



## DO WE NEED A NATIONAL RECREATION POLICY?

there ought to be plenty of food for thought, if not gags, in appraisal procedures already suggested, some of which suggest virtually "blue-sky" possibilities. The governmental reasoning along this line, so far, might even be used to justify putting a dollar value on every wild duck that flies across our national parks, capitalizing all the gold in our rivers and lake waters, and pricing every uncaught rabbit in the fields.

**P**UBLIC utility companies, which have good reason to remember criticism from courts and regulatory commissions over cost and value estimates which have been "too conjectural," will smile at what the government figure wizards have done, in marking up the price of "recreation" as a public project benefit. But let's go back to the beginning of the story.

On July 22, 1950, an article dealing with a problem of importance to many public utilities appeared in *The Saturday Evening Post*. The article, written by Bernard De Voto, was entitled "Shall We Let Them Ruin Our National Parks?" It focused a spotlight on the activities of the Army's Corps of Engineers and the Interior Department's Bureau of Reclamation, in their efforts to construct multipurpose dams which would obliterate some of the scenic wonders of our national parks.

Mr. De Voto recited the familiar history of the tremendous growth of these two agencies as promoters of fantastically expensive river-control and irrigation projects, carrying with them certain benefits in flood control, navigation, farm land reclamation, and other asserted advantages. Ac-

cording to De Voto, projects now on the drawing boards of these two agencies actually threaten the natural beauty and grandeur of such awesome spectacles as the Grand Canyon, Lodore Canyon, Dinosaur National Monument, and Kentucky's Mammoth Cave.

Furthermore, these ventures are being proposed notwithstanding local, state, and national opposition, and apparently in some conflict with existing laws.

**T**HE National Park Service, a bureau of the Department of the Interior, was created by act of Congress and directed by that act "to conserve the scenery and the natural and historic objects and the wild life therein, and to provide for the enjoyment of the same in such manner and by such means as will leave them unimpaired for the enjoyment of future generations." The treatment of this law, affecting one agency of the Interior Department, by another agency of the same department (Reclamation Bureau), is only one of a series of puzzling anomalies that have surrounded the construction of these huge structures in the West.

The *Post* article contained several paragraphs which pointed up a well-known problem to private utilities everywhere. They indicate the direction in which the next concerted movement for more Federal funds for dam construction is likely to proceed. Said Mr. De Voto:

We long ago passed the point where reclaimed western land could repay the cost of the projects that reclaimed it, as it was originally intended to do. If it cost several hun-

## PUBLIC UTILITIES FORTNIGHTLY

dred dollars an acre to make land worth \$50 an acre, the rest of the cost must be charged to something besides reclamation. If the project includes the production of electricity, the sale of power will take care of part of the remainder. If it includes flood protection . . . whatever fraction of the remainder can be allocated to flood control can be written off altogether, since the whole country benefits from reduction of flood losses. But honest cost accounting ends right there; no additional economic justification can be found. Hence the Bureau of Reclamation has begun to publicize a shimmering but carefully unanalyzed value which it calls "recreation."

If the bureau can successfully allege that its projects create facilities for recreation, then it can charge to them as much of the uneconomic cost as it is able to get away with. Nobody doubts that the American people need facilities for recreation and will need more of them as our population increases. But what kind, where, at what cost, and who shall pay for them? Should we write off \$10,000,000 of the cost of an irrigation project because it will provide bass fishing for one North Dakota county? Should Philadelphia and Birmingham be taxed to provide sail-boating for Las Vegas?

THESE questions are of concern to every taxpayer. They are of even greater moment to the tax-paying, business-managed utilities regardless of geographical location in this coun-

try. It is their money (or the funds collected for their taxes from the customers) which will be used for these proposed projects and which will be written off, with little or no return to the general taxpayer. The question of new "nonreimbursable" benefits accruing from multipurpose dams is the stage upon which the next great public power *versus* private power fight may well take place.

WHAT evidence is there to support this statement? Let us examine first the reports made to the Joint Federal Inter-Agency River Basin Committee by its subcommittee on benefits and costs.

This committee has been formed by the four Federal agencies having the largest stake in multipurpose projects—Department of Agriculture, Interior Department, Defense Department: Corps of Engineers, and the Federal Power Commission. For the past four years this committee has wrestled with the weighty problem of rapidly increasing costs of Federal construction projects. The committee has recognized that power benefits from any dam are limited to the capacity of its generators and related water-flow circumstances. It has become convinced that water users of reclaimed lands are paying all they can stand, even with the relaxed and lengthened terms of repayment per-



**Q** "At the request of both the Corps of Engineers and the Bureau of Reclamation, the National Park Service has attempted to measure in monetary terms the benefits that accrue from recreational developments and use of water-control projects. The service uses a method that is admittedly only a general guide for the appraisers to follow."

## DO WE NEED A NATIONAL RECREATION POLICY?

mitted irrigation users. It is face to face with economic justification of any future multipurpose project.

THIS subcommittee, therefore, has been studying "allocations" with the intent of finding a basis on which other benefits may either be written off or amortized. Frankly, the subcommittee has not found too many avenues open to this approach. For this reason recreation, one of the most widely heralded allocations under consideration, and one of the least tangible, is rapidly assuming an important part of the allocation argument.

In the subcommittee's uneasiness over the varying practices of Federal agencies in considering certain other benefits from multipurpose projects, it was found close to impossible to develop satisfactory definition and evaluation methods when discussing recreation. The Corps of Engineers, in accordance with the Flood Control Act of 1944, attempts to analyze and evaluate such recreational possibilities as these: enjoyment value to visitors, educational value from such visits, physical values of recreational activity to users, increase in net income from hotels, lodges, and concessions set up as a result of dam construction, increase in net income of the area through higher residential values in neighborhood, and the value to the community through improvement in general appearance of the near-by towns and villages. Similar benefits that the Corps of Engineers attributes to its projects accrue from improvements in navigation, such as small boat harbors and improved docking facilities.

THE Reclamation Bureau finds many additional benefits to recreation through the construction of these dams and tries mightily to include them in the potential benefits. Reclamation cites the usefulness of newly created reservoirs in providing landmarks and land sites for amphibious and sea planes. The bureau also points out that such dams may uncover archaeological information and artifacts during construction. In general, such recreational benefits are measured by the bureau on the basis of expected expenditures of persons visiting the area plus the general benefits to surrounding areas. Since it is difficult to pin a dollar sign on any of these estimates, Interior is considering revising its practice in this regard.

In every case, according to agencies' reports, the possible adverse effects that may result from construction of these dams are taken into consideration. These adverse effects include impairment of existing parks, inundation of scenic, scientific, or archaeological features, or the unfavorable alteration of existing arrangements for servicing recreation seekers. This latter concern for the unfavorable effects appears to be lip service to a general policy, since the dams which now threaten our national parks certainly fall into such a category.

OF course, there is already on the books of the Tennessee Valley Authority some ready-made justification for the write-off of some recreational benefits. When Senator Malone, Republican of Nevada, asked the TVA in 1948 to compare the possible



### Changing Reclamation Law

**"P**RACTICALLY everyone who has anything to do with reclamation objects to some part of the law, but everyone has his own particular ax to grind and confusion has resulted. There have been concerted efforts in Congress to change the law's provisions, but no bill has made it all the way to the White House. This recreation question plays a rôle in current debate on reclamation legislation."

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benefits of its multipurpose dam system with benefits possible through the alternative construction of mere single-purpose dams, the authority found many statistics to justify construction of the big ones instead of the little ones.

Among the benefits it found attributable to navigation was an item of \$1,000,000 a year for fishing and recreational boating. This figure was taken alone from a report prepared by the Corps of Engineers, although it actually contained a footnote stating that such benefits *would* accrue *following* the expenditure of an additional \$1,035,000 annually for improved facilities. A sizable part of this additional expenditure would have to be charged against the benefits reported, thus reducing them considerably.

In this 1948 report written at Senator Malone's request, the TVA came up with a new rule of thumb in  
FEB. 1, 1951

evaluating its recreational accomplishments. It revealed that in 1947, 7,338,755 persons visited the TVA lakes for recreational purposes, in addition to the two and a half million who visited the TVA dams themselves. "If it is assumed," says the report, "that the recreational value for each visitor was equivalent at least to that obtainable by purchasing a ticket to a 25-cent movie, an assumption which has been recognized as reasonable by recreation authorities, an annual value of over two and a half million dollars would be ascribed to this recreation use." By the same logic, utilities owning private power dams visited by the public should be allowed to write off a part of their indebtedness at the rate of so many cents or dollars per visitor.

**A**t the request of both the Corps of Engineers and the Bureau of

## DO WE NEED A NATIONAL RECREATION POLICY?

Reclamation, the National Park Service has attempted to measure in monetary terms the benefits that accrue from recreational developments and use of water-control projects. The service uses a method that is admittedly only a general guide for the appraisers to follow. Eventually it places great reliance upon the judgment and experience of the individual appraiser for obtaining reasonable results. It is not a method which can be used by one without the necessary background of training and experience in recreation work, and it is understood (at least the National Park Service always points out) that many adjustments, alterations, and concessions are necessary in order to make the method applicable to a particular project.

Nevertheless, it has been impossible for this writer to discover any case where the National Park Service estimate has been altered or challenged to any extensive degree. From a cursory glance at the method of determining these benefits, they would certainly seem open to challenge.

FOR example, let us take a look at the estimates of the potential travel value estimated for recreation area created by one of these multipurpose projects. The travel value represents a cost to the visitor for travel to and from the area from a near-by major national highway. This amount is considered a factor in determining part of the value of recreation. In calculating travel value consideration is given to three factors: cost per mile, passengers per car, and round-trip distances. The National Park Service assumes that five cents a mile is allowed for

auto travel, that three-and-a-half passengers are the average vehicle load. If the average round-trip travel distance is 200 miles, and it is assumed that 20,000 visitors will be expected each year, then the travel value is computed as follows: 20,000 visitors  $\times$  200 miles  $\times$  5 cents per mile  $\div$  3.5 persons = \$57,143.

IN addition, there is considered a general value, apparently just in the good will of the folks who visit the park, which is equivalent to 20 per cent of the total travel value and per diem value. Just how this percentage is arrived at is not disclosed.

Along with other convenient rules of thumb in estimating, the agencies usually like to include an estimate of the increased value of fish and wild life, both for the hunter and fisherman and for the commercial trapper and fishery. In computing the benefits which accrue to fish and wild life, the estimated increased value of the game and fish is considered. However, when computing the cost of the installation of recreational facilities, current prices for labor and materials are quoted, with no expected increase shown.

At any rate, the Federal Inter-Agency River Basin Subcommittee finally came up with some recommendations in May of 1950. In analyzing the recreation, fish, and wild life allocations, the subcommittee suggested that the benefits of recreational use be based on informed estimates of the average value of these facilities to prospective users. The pertinent factors to be included in deriving these "tangible" values included charges which the recreation-



## PUBLIC UTILITIES FORTNIGHTLY

alists would be willing to pay and any actual charges being paid by users for comparable facilities in other areas. Other benefits, the report suggested, should be valued by measuring the net income from such commercial projects, both with and without the project.<sup>1</sup>

THE subcommittee also warned that adverse effects of multipurpose dam construction must be measured in the same manner as favorable effects. The subcommittee placed these

<sup>1</sup>The report contains the following interesting passage:

"Under one procedure which has been used to estimate such values, the value of a recreational benefit to an individual is assumed to be equal to the sum of expenditures by the recreationalist for such items as gasoline, food, lodging, and sporting equipment in connection with his use of recreational opportunities afforded by a project. This method, however, provides a measure of gross rather than net values and from the project standpoint does not measure benefits creditable to the project.

"By another currently used method, recreational benefits are assumed to be equal to the cost of installing, operating, and maintaining specific recreational facilities plus an equal amount considered to be the value of the benefits attributable to recreational use of project facilities provided for purposes other than recreation. This has the effect of assuming that the value of recreational benefits is equal to twice the specific project costs for recreation. This method does not provide an objective and independent criterion for determining recreational benefits creditable to the project."

Source: Page 51, under Recreation, Fish, and Wildlife, from Report to the U. S. Federal Inter-Agency River Basin Committee, May, 1950.

effects in the "intangible" category, however, and posed no solution to the problem created by the clash of conservationists *versus* project enthusiasts.

These recommendations were duly noted and, to some extent, they were incorporated in the administration's bill of last year to amend the Reclamation Act of 1939. Now this mischievous piece of law has been on the books just ten years, but has caused a century of headaches in its brief existence. It has been the subject of thousands of pages of congressional hearing testimony and floor debate. Practically everyone who has anything to do with reclamation objects to some part of the law, but everyone has his own particular ax to grind and confusion has resulted. There have been concerted efforts in Congress to change the law's provisions, but no bill has made it all the way to the White House.

This recreation question plays a rôle in current debate on reclamation legislation. A provision relating to recreation was written into the bill, HR 1770, proposed by the administration early in the 81st Congress. At that time, however, the wishes of the President were made known, to the effect that his Water Resources Policy Commission was studying the whole question.

At Mr. Truman's request, the



"It must be clearly understood that recreation is but one of half a dozen so-called 'allocations' for which it is hoped Congress will provide interest-free, no-return, one-way funds for multipurpose projects. Among others are salinity control, pollution abatement, municipal water improvement, and sedimentation control."



## DO WE NEED A NATIONAL RECREATION POLICY?

recreation provisions in the bill were withdrawn.

**F**OLLOWING considerable backing and filling on HR 1770, the President changed his mind and sent to Congress via the Director of the Budget an amendment to the bill, which was adopted by the committee and remained in the revised measure until it died with the last Congress. This amendment authorized the Secretary of the Interior to investigate, construct, operate, and maintain recreation facilities "immediately adjacent" to the dam structures in reclamation projects. The Secretary is further directed to consult with state agencies to see to it that potential reservoir recreation sites are protected. He is enabled to acquire land and lease sites, giving preference to Federal, state, and local governmental agencies. Expenditures made for this purpose "shall be nonreimbursable, and any revenues received shall be deposited in the general fund of the Treasury." The President added that he thought the Secretary of the Army ought to have the same authority over Corps of Engineers' projects.

This bill did not pass, and, so far, neither Secretary has been granted such powers. But it seems certain that we have not heard the end of the matter.

Perhaps we have not even heard the half, for a new voice has been added to the clamor within the past month or so. It is the voice of the President's Water Resources Policy Commission, up from the deep with seventy recommendations, some of them more remarkable than others. For example, here is Recommendation No. 67:

Federal participation in recreation features of water resources programs should be determined in relation to Federal participation in other recreation programs. To this end, it is desirable that Congress authorize a study of the whole recreation field, having as its objective the development of a national recreation policy.

**I**T must be clearly understood that recreation is but one of half a dozen so-called "allocations" for which it is hoped Congress will provide interest-free, no-return, one-way funds for multipurpose projects. Among others are salinity control, pollution abatement, municipal water improvement, and sedimentation control. Some of these involve costs which are now being borne by the communities affected by dams under construction, which costs would be shifted to the Federal Treasury. Some of these are actually caused by the dam construction itself, and may or may not reflect a benefit resulting downstream from silt control along the river's course.

But recreation is a sitting duck, a brand-new field of unlimited possibilities. Those 32,000,000 people who visited national parks two years ago represent a sizable chunk of our voting population, who will doubtless be impressed with vague promises of newly created paradises in the wilderness.

Some congressional experts on these matters profess to see in the "clarification" of allocation questions a start toward getting all such estimates on a sound fiscal basis. Others see in this same movement a dangerous trend toward a solid front among the affected agencies, one that would

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be hard to stop in the halls of Congress. Once additional millions of dollars can be written off with the stroke of a Secretary's pen, the way will be opened for the construction of dozens of new public power projects not now conceivable. The door will be open to arbitrary evaluation of the adverse effects of any proposed dam on the soaring grandeur of our national parks and monuments. And new tax-free competition for electric utilities will be just around the corner from the nearest babbling brook that can be shown to have power, flood-control, and recreation potentialities.

**I**N summing up, it would seem that if Congress is seriously considering the study of a national recreation policy, there are plenty of places to be

gin. There are plenty of questions to be asked. There are numerous theories and loose ends to shake down and unify into some formula that will stand the test of common sense. It may be in the very elusive nature of recreation that no mortal man can put a dollar sign on the God-given pleasure of the songs and laughter that go to make up "the perfect day." But is it asking too much of the Federal spenders and lenders to keep such items out of the investment which has to be financed at the taxpayer's expense? Do we need a recreational policy? Maybe not—certainly not right away. But we do seem to need a checkrein on the fiscal dreamers who would capitalize the depth and echoes of the Grand Canyon unless they are watched closely.

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### Atomic "Tracers" to Help in Operating Pipeline

**"S**TANDARD OIL OF CALIFORNIA is going to use atomic energy 'tracers' to help direct traffic through a 566-mile pipeline now under construction from Salt Lake City to Pasco, Washington.

*"The traffic problem is this: The single line will be moving a variety of products—gasoline, Diesel oil, and kerosene, for instance—in batches to a number of distribution points, including Ogden in Utah, Boise in Idaho, and Baker and Adams in Oregon. At the points of exit from the line the men in control must know when to open and shut valves as the flow of one product ends and the first of a different product begins.*

*"California Standard will solve the problem thus: Each time the Salt Lake pump station switches a new batch into the line, a fraction of an ounce of diluted tracer liquid—made in the atomic piles of Oak Ridge, Tennessee—will be added to the oil product stream. As the batch begins to flow along the line, the tracer will precede it. Then sensitive Geiger counters attached to the pipe near exit points will herald the arrival of the new shipment, and switchmen can shut the product off the line or on to the next control point as scheduled."*

—EXCERPT from *The Wall Street Journal*.

# Washington and the Utilities



## *The Fiscal 1952 Budget*

PRESIDENT Truman's budget recommendations for the fiscal year 1952 call for expenditures of \$71.6 billion—a total of 78 per cent above expenditures for the year ended June 30, 1950, and 51 per cent greater than estimated expenditures for the fiscal year which will end next June 30th. The \$71.6 billion, matched against anticipated revenue of only \$55.1 billion, spells out a fiscal 1952 deficit of \$16.5 billion.

In transmitting the budget estimates to Congress the President said, "This is a budget for our national security in a period of grave danger," adding that the increase is one measure of the vast new responsibilities thrust upon us by the communistic assaults upon freedom in Asia and the threats of freedom in other parts of the world.

It is noted here that 1952 expenditures for the military and for aid to our foreign Allies will total \$48.8 billion, \$1.6 billion more than our estimated expenditures for all purposes for the fiscal year which will end next June 30th.

### *Power Program*

The new budget includes seven new projects, all of which, the President said, will provide substantial power benefits. He said they had been recommended following a "careful review of power requirements for the defense program." He stated that these new projects, together with projects completed or under way by the Bureau of Reclamation, Corps of Engineers, and the Tennessee Valley Authority, will provide ultimate capacity of 20,000,000 kilowatts.

These new projects are Hells Canyon, The Dalles, and Ice Harbor in the Colum-

bia basin, Old Hickory on the Cumberland river, a steam plant in the Tennessee valley, Gavins Point on the Missouri river, and the St. Lawrence seaway and power project.

Referring briefly to the report of his Water Resources Policy Commission, the President said that although long-range improvement of our river basins is essential for the continued economic strength of the country, in fiscal 1952 "we must emphasize those aspects of the programs which primarily support the national defense." He then left open a loophole for additional new power projects with a statement that the commission's report will be reviewed to determine what administrative and legislative recommendations may be needed to improve the government's water and related land-use program.

### *REA in the Budget*

THE Rural Electrification Administration's farm power and telephone loan programs will necessarily be curbed because of metals shortages, the President said. For this reason, he continued, the new REA loan authorization should be cut from the \$300,000,000 of the fiscal year ending next June 30th to \$109,000,000 in fiscal 1952, with \$9,000,000 of this sum earmarked for the rural telephone loan program. The reduction in new loan authorization will permit "improvement and expansion of existing distribution capacity where essential," but will require some curtailment of loans for new facilities, the President said.

Despite the great reduction in lending authority and materials shortages which will prevent construction of new REA-financed systems, thus restricting REA's activities to little more than collecting

## PUBLIC UTILITIES FORTNIGHTLY

outstanding accounts—with an occasional loan for expansion or repairs to existing systems—the budget estimate for the agency's "housekeeping" expenses has been dropped only \$50,000. For the current fiscal year, \$8,550,000 was appropriated, while \$8,500,000 is asked for the coming fiscal year.

### *Tennessee Valley Authority*

Budget estimates for TVA are almost doubled over the current fiscal year when \$131,214,000 was appropriated for this agency. The estimate for the approaching fiscal year is \$248,568,000, an increase of \$117,354,000. The additional funds are needed to expedite projects now under way, including the huge steam plant at New Johnsonville, Tennessee, and one new steam plant not identified in the budget estimate. During the past session of Congress, TVA secured additional funds for acceleration of its construction program on testimony of Chairman Gordon Clapp that it had become necessary to supply more electric power to the Atomic Energy Commission installation at Oak Ridge, Tennessee.

For the coming year, TVA wants a stepped-up "housekeeping" appropriation. In the fiscal year ending next June 30th the Congress appropriated \$4,026,000 for "administrative and general" expenses.

The budget request for this account in the coming fiscal year is \$4,600,000, an increase of \$574,000.

### *Corps of Engineers*

OVER-ALL funds for the Army Corps of Engineers' general flood-control activities were sharply cut in the current budget estimate. Appropriated under this heading in the current fiscal year was \$386,308,250, while the estimated sum for fiscal 1952 is \$328,365,000, a drop of \$57,943,250.

Two items in the Engineers' estimate that are quietly tucked away in fine type are \$2,000,000 for an investigation of power potentialities of the Niagara river in New York, and \$15,000,000 for a survey of power and navigational potentialities of the St. Lawrence river. Both of

these surveys were authorized by the recently expired 81st Congress, but many thought they would be laid aside until Congress could more thoroughly study the report and recommendations of the President's Water Resources Policy Commission.

### *Interior Department*

The Bureau of Reclamation, Interior's big builder of dams, had its funds for construction and rehabilitation sharply whittled, but the cut applies mostly to irrigation projects—not to hydroelectric installations, proposed or under way. The drop was from \$296,928,000 in the current fiscal year to \$273,690,000 in 1952, a decline of \$23,238,000. Bonneville Power Administration, Southwestern Power Administration, and Southeastern Power Administration—all Interior sub-agencies—received hikes that portend expansion of the Federal power program.

BPA's construction request was for \$69,500,000, an increase of \$30,000,000 over the current fiscal year appropriation. The increase will largely go into Hells Canyon, The Dalles, and Ice Harbor projects of the Columbia basin, provided, of course, that Congress approves. The estimate for BPA's operation and maintenance during the coming fiscal year was moved up from \$5,000,000 to \$5,500,000.

### *Southwestern Power Administration*

THIS agency, in so far as budget estimates are concerned, remains more or less in a position of status quo. The requested \$4,100,000 for construction is really a liquidation item to cover contracts now in process of execution. No new contract authority is requested, but operation and maintenance estimates are up from \$760,000 in 1951 to \$1,300,000 in the new budget. Of this hike, the budget message says over \$400,000 is for items previously carried under construction.

### *Southeastern Power Administration*

Newest of the Interior Department's power-marketing bodies, the Southeastern Power Administration, scarcely out of swaddling clothes, has asked \$4,000,000

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for construction during the coming fiscal year. This estimate is for planning and construction of transmission facilities to dispose of power from the Buggs Island, Virginia-North Carolina project and the Clarks Hill project in Georgia-South Carolina.

Over the unanimous opposition of the Virginia congressional delegation, SEPA was given an appropriation of \$1,850,000 in the final days of the 81st Congress to initiate construction of the line from Buggs Island to a Federal installation at Langley Field, Virginia. However, Senator Carl W. Hayden (Democrat, Arizona) stated on the floor of the Senate that the line would not be constructed, provided Interior and the Virginia Electric & Power Company could reach a satisfactory wheeling agreement. (See page 180.)

Stepped-up activities of SEPA during the coming year are foreseen in the budget estimate of operating costs, placed at \$300,000, just double the current year's appropriation. It is also proposed to set up a continuing fund of \$200,000 "to be derived from receipts from the transmission and sale of electric power . . . generated in the area."

### *Regulatory Agencies*

**B**UDGET estimates for the several regulatory agencies carried nothing of significance or note.

The estimate for the Federal Communications Commission was raised from \$6,625,000 to \$6,850,000, an increase of \$225,000. The increase, the budget message said, is primarily for additional research, technical equipment, and frequency assignment work.

Budgetary needs of the Federal Power Commission are placed at \$4,045,000 during the approaching fiscal year, an increase of \$31,700 over the current fiscal appropriation of \$4,013,000. It was stated in the budget message that the "continued expansion of the natural gas industry has added to the commission's work load and responsibilities."

FPC estimates for flood-control surveys in fiscal 1952 were put at \$320,000,

a decrease of \$31,700 from the current year's appropriation of \$351,700.

Interstate Commerce Commission's budget estimate for the coming year was placed at \$9,823,000, a decline of \$66,600 from the current year's appropriation. The estimate for railroad safety activities of the commission is \$1,000,000, no increase over the current year's appropriation.

Also reduced was the budget estimate for the Securities and Exchange Commission. This agency was appropriated \$6,230,000 for the current fiscal year, but the 1952 estimate has been dropped to \$5,924,000, a decline of \$306,000, reflecting a decrease in activities relating to public utility holding companies.

### *Kerr Bill Revival*

**T**HERE is solid reason to believe there will be a revival in the 82nd Congress of the so-called Kerr Bill, to exempt producers and gatherers of natural gas from regulatory jurisdiction of the Federal Power Commission. Not a few gas state members of Congress feel they are in a position to reenact, and get presidential signature, to a measure identical with the one vetoed during the second session of the 81st Congress.

This optimism is based on an assumed "trading position" gained through a recent U. S. Supreme Court decision, upholding the right of the Oklahoma Corporation Commission to regulate the price of natural gas at the wellhead where such regulation is in the interest of conservation. A severance tax "in the interests of conservation" might be less palatable to the administration than a clear-cut statute barring FPC regulation at the wellhead, reason some of the southwestern Congressmen.

Senator Robert S. Kerr (Democrat, Oklahoma), author of the vetoed measure, has been uncommunicative on the subject, but sources close to him feel that he is in full accord with those legislators who feel they are in position to "trade" with the White House.





# Exchange Calls And Gossip

## *Communications Industries Called to the Colors*

**T**HE New Year of 1951 finds the communications industries gearing their operations for the double load of civilian and military needs. During 1950 the Bell and independents experienced a solid year of civilian expansion. The Bell system took on nearly 2,000,000 new customers for a total of 35,300,000 telephones throughout the United States. Add to that about 300,000 new telephones put on the line by the 5,600 independent companies for a total of almost 43,000,000 telephones serviced both by Bell and independent systems. About 30,000,000 of these are residential telephones, making an average of two out of three families with telephone service in the United States.

The Bell system alone spent \$1,070,000,000 in adding new telephones and new equipment and new buildings to serve them. Yet the demand grew even faster. At the end of the year, the Bell system had a waiting list of 800,000, several thousand greater than at the beginning of the year.

Telephone calls increased in volume. The number of telephone conversations grew from an average of 132,000,000 a day in 1949 to 140,000,000 in 1950 for the Bell companies alone. The industry total approximates 170,000,000 calls daily.

One of the important undertakings of the last year was the start of the installation of telephone facilities for an air defense radar network rimming the country. Thousands of miles of private line networks are being provided to the military, in addition to local and toll telephone

facilities furnished to military bases, training camps, and civilian defense organizations.

**T**HE nation's telegraph system was greatly augmented late in 1950 by the completion of Western Union Telegraph Company's \$90,000,000 mechanized transmission system with the opening of a high-speed message center at Portland, Oregon. The Portland center was the fifteenth and last in the nationwide setup under which telegrams typed at the sending point are flashed automatically without any manual retransmission all the way to their destination.

Radio Corporation of America continued to extend the use of its automatic tape relay method of transmission and advanced mechanization for greater speed and accuracy in handling overseas radio-telegraph traffic. During the year, RCA Communications introduced a new 2-way, customer-to-customer teleprinter exchange service and extended the service for operations from New York and Washington to The Netherlands and western Germany.

## *Dime Pay Station Toll Marches On*

**J**ANUARY 6th witnessed the inauguration of the 10-cent local telephone call charge from coin boxes in the New York city area. The increase over the old nickel call rate was authorized last May by the New York Public Service Commission, which also permitted increases as high as 50 cents a month on residential rates. Coin-box users may deposit either two nickels or a dime in making calls.



## EXCHANGE CALLS AND GOSSIP

The doubling of minimum coin-box rates is expected to yield an additional \$12,000,000 annually for the New York Telephone Company. The commission held in May that the company is entitled to an additional \$14,000,000 a year under the law.

A surcharge of 2 per cent, which the commission allowed the New York Telephone Company to add to bills of regular subscribers pending mechanical adjustment of coin boxes to the new dime rate, was discontinued after January 6th.

The change went into effect without any noticeable fanfare or disturbance in the metropolis. But up in Albany, New York, where the legislature was meeting, a Democratic assemblyman from Brooklyn demanded a legislative investigation. He was Bernard Austin, who introduced a resolution to create a 7-member legislative committee to study all telephone rate schedules in the state. He proposed that the agency be given \$15,000 for its work. Austin said the rate increase "comes at a time when there is a crying need for stabilization of prices and charges to prevent spiraling inflation . . ."

### *Communist Telephone Service Compared*

How do the free countries throughout the world compare with the average of Russia and her satellites in the matter of telephone service? The world telephone census figures recently released by the American Telephone and Telegraph Company have furnished the basis for some comparative figures made by the *Cleveland Plain Dealer*. They show that the free countries throughout the world have a high percentage of telephones per 100 population, while the Red nations show up very poorly.

Among the free countries, for example, Sweden, with 1,493,522 telephones has a percentage of 22.8 phones per 100 population; Canada (including Newfoundland) has 2,700,000, or 19.6 per cent; Switzerland, 845,471, or 18.2 per cent; New Zealand, 348,539, or 18.2 per cent; Denmark, 680,703, or 15.8 per cent;

Norway, 430,881, or 13.3 per cent; The United Kingdom, 5,177,370, or 10.2 per cent.

Comparative figures for Russia and her satellite states are as follows: There are in the USSR (partly estimated and including all Asiatic territory of the USSR) 1,500,000 telephones, but the per 100 population percentage is only seven-tenths of one per cent. Albania, with 1,200 telephones, has a percentage per 100 population of 0.1 per cent; Bulgaria with 57,000, 0.8 per cent; Czechoslovakia with 380,000, 3.1 per cent; Hungary with 115,000, 1.2 per cent; Poland with 225,000, 0.9 per cent; Romania with 135,000, 0.8 per cent.

The *Cleveland Plain Dealer* concludes:

It would appear, therefore, that when Soviet Russia proclaims that she is a land flowing with milk and honey and all things desirable, and urges that all nations seek to emulate her, the subject of the telephone has been disregarded utterly.

It is manifestly apparent that everyone, large or small, possesses more of the comforts and blessings of this world in countries which still are free than in any of the so-called Communist paradises.

### *Rate Increases*

TELEPHONE rate cases continued to make news at the very outset of the year 1951. Probably the most newsworthy was the increase granted by the Michigan Public Service Commission to the Michigan Associated Telephone Company for \$870,000. This is the first utility rate increase granted by the commission since it was recently changed by an appointment by Governor Williams. In the past, Governor Williams has been critical of telephone and other utility rate increases granted by the commission. But he said the Michigan Associated decision "is entirely in accord with policies I have urged."

He noted that the commission's staff had recommended the increase, and that "every effort is being made to insure

## PUBLIC UTILITIES FORTNIGHTLY

the customer full value for his money."

John H. McCarthy, Democrat who was appointed chairman of the commission by Governor Williams during his first administration, Commissioners John M. Veale, Democrat, recently appointed by Governor Williams, and Schuyler L. Marshall, holdover Republican, also signed it, although Veale made a notation that the hearings were concluded before he took office.

In neighboring Indiana, a proposed rate increase which would boost revenues of the Indiana Bell Telephone Company by \$4,900,000 was heard before the Indiana Public Service Commission. Counsel representing the cities of Mishawaka and South Bend seem concerned over the frequency of rate increases and questioned the need of such a proposed boost so soon after a million-and-a-half increase was granted last September.

"Utility rates should have some stability and exist for some time," the Mishawaka lawyer, Vernon Freed, stated.

**T**HOMAS D. STEVENSON, general counsel for Indiana Bell, said the company needs the rate increase because operating expenses and construction costs have been rising steadily and prior rate increases were not sufficient. Stevenson added that the company's value is \$121,000,000 and not \$88,000,000 as set by the commission. This is important because rates of return are based on value. Stevenson said the company would be earning a rate of 5.9 per cent if the rates were granted.

Stevenson said that the company faces an uncertain period but emphasized that military and civil defense needs would be taken care of.

First witness called to the stand was E. R. Moore, inventory and cost engineer for Indiana Bell, who testified as to the company's claimed \$121,000,000 value.

In Kentucky, Southern Bell Telephone & Telegraph asked the Kentucky commission for an increase of \$2,732,538 a year, claiming that since the case was filed seven months ago the company would

now need a further increase of \$1,013,276 a year. R. R. Stubbs, assistant vice president, testified that the increase applied for June 12th and put into effect July 6th under bond was designed to yield 7.25 per cent return on Southern Bell's operations in Kentucky. Instead, he said it is yielding 6.49 per cent.

Stubbs said it now would require increases totaling \$3,745,814 a year to give the company a Kentucky return of 7.25 per cent. Principal factors in the deficiency, he added, are higher Federal taxes and mounting construction costs.

Southern Bell did not amend its application to ask for the new increase.

**U**P in Rhode Island the New England Telephone & Telegraph Company moved to convert a petition for emergency revenue allowance into a full-scale rate increase. The telephone company asked Rhode Island Public Utilities Administrator Thomas A. Kennelly for speedy action because expanded communications services are vital to civil defense.

Coming as a surprise at the first hearing on the company's November petition for \$850,000 of added annual revenues to cover higher wage and tax costs on a temporary basis, the move was taken under advisement while Kennelly consults with the attorney general's department.

The motion would have these effects, if granted:

1. Allow the New England Telephone & Telegraph Company to file a new rate schedule yielding \$2,300,000 of added annual revenues, on the ground sufficient time has elapsed since the hearing board in December, 1949, boosted revenues to a total of \$3,200,000 over their 1947 level.

2. Consolidate the over-all petition for new rates with the present emergency rate request, which was filed pending determination by the state supreme court of an appeal by NET&T from Kennelly's refusal to grant a rate increase last June on grounds of too short a time since the December, 1949, cases.

3. Probably wipe out the litigation in the supreme court.

# Financial News and Comment

By OWEN ELY



## *Irving Trust Company's Analysis Of 1950 Utility Financing*

SEVERAL records of utility financing are now maintained on a monthly basis, and others as annual compilations. The *Financial Chronicle* has for many years published comprehensive monthly tables of new offerings, with all utilities (electric, gas, telephone, etc.) treated as one group. These tables are valuable for historical purposes but unfortunately do not distinguish between preferred and common stocks. Ebasco Services, Inc., in recent years has been compiling complete records of electric utility (only) financing in considerable detail; these are published in pamphlet form periodically. The Securities and Exchange Commission has not pursued a consistent policy, but during the past year has been issuing (somewhat belatedly) pamphlet reports of all registrations under the Securities Act of 1933, with emphasis on the cost of flotation.

Perhaps the most practical compilation for Wall Street use, however, is the tabulation issued very promptly after the end of each month, by the public utility department of Irving Trust Company, and has been issued since April, 1948. It includes electric and gas utilities, but not telephone and miscellaneous utility companies. This is the only tabulation which reports the market reception accorded each offering (by symbols indicating "well received," "fairly well

received," "sold somewhat slowly," and "sold slowly").

The analysis on page 172 of 1950 electric and gas security offerings is compiled from the Irving Trust's detailed records.

As indicated in the accompanying table, electric and gas financing during 1950 was about 29 per cent refunding and miscellaneous, and 71 per cent new money. It is rather surprising to note that 38 per cent of all bond issues sold to the public were for refunding purposes, despite the fact that interest rates did not show any great change during the year.

Regarding private placements, the percentages of total financing handled by this "wholesaling" method were 32 per cent of the dollar amount of bond issues and 10 per cent in the case of preferred stocks. (No common stocks were thus disposed of.) Of the common stock financing, 69 per cent was "new money" and 31 per cent for other pur-

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## PUBLIC UTILITIES FORTNIGHTLY

poses (principally holding company divestments). Of the total common stock issues, twenty-five items constituting about 37 per cent of the dollar amount were offered direct to the public (a large proportion of this representing sales by holding companies, though in some cases the latter offered rights to their own stockholders). One item representing 3 per cent of the total was an underwritten exchange offer, the common stock being offered along with preferred in units to retire old preferred issues with arrears. The remaining thirty issues were offered to stockholders—eighteen being underwritten and one offered with dealer compensation, while eleven were not underwritten. Thus of the total issues in which stockholders were asked to participate, twenty issues or 61 per cent of the total dollar amount were underwritten, while eleven issues (39 per cent in amount) were not underwritten.

**T**AKING up the question of the method of obtaining underwriters: the use of competitive bidding for mortgage bond issues now seems to be pretty thoroughly established, at least so far as commission policy is concerned, as only one issue was sold on a negotiated basis—\$18,000,000 Southern Union Gas first sinking-fund debenture 2½s, which had a Baa Moody rating. Among the debenture and note issues, however, there was a greater tendency towards the negotiation method—four issues totaling \$46,000,000 were negotiated while ten totaling \$298,000,000 went the competitive bidding route. In

the preferred stock list the tendency toward negotiated deals went much further, about three-quarters of the amount (\$266,000,000) being underwritten by this method. Of the negotiated deals seven were on an exchange basis, three were subscription offerings, and eighteen were straight sales.

Among the common stock offerings 24 per cent were subscriptions not underwritten, but of the remainder about three-quarters were negotiated deals and one-quarter submitted to competitive bidding. (There was a greater tendency toward negotiation among the subscription offerings than in the straight sales.) The offerings not underwritten were usually offered to stockholders with valuable "rights," so that a heavy subscription was insured by brokers' arbitrage operations.

Very few convertible issues were offered in 1950. There were apparently no new convertible debentures, but four convertible preferred stock issues were offered, as follows:

\$6,300,000	El Paso Natural Gas	4.25 Preferred
8,900,000	Brooklyn Union Gas	4% Preferred
3,300,000	Tide Water Power	\$1.35 Preferred
20,000,000	Texas Eastern Transmission	4.58% Preferred

**M**OST mortgage bond issues carried the usual one per cent sinking fund (sometimes starting a few years in the future); in many cases, however, this requirement can be satisfied with cash, bonds, or property. The use of mandatory cash sinking funds (not to be

### 1950 ELECTRIC AND GAS UTILITY FINANCING

(Millions of Dollars)

		New Money	Refunding	Total
Bonds	Sold to Public.....	\$823	\$498	\$1,321
	Sold Privately.....	537	78	615
Preferred	Sold to Public.....	275	79	354
	Sold Privately.....	34	5	39
Common	Sold to Public.....	93	—	93
	Offered to Stockholders.....	230	12	242
	Not New Issues.....	—	132	132
Totals.....		\$1,992	\$804	\$2,796

FEB. 1, 1951

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satisfied through property additions) remained a feature with natural gas issues and some electric utility debentures, but institutions apparently did not insist on sinking funds for preferred stocks as they occasionally have in the past. The \$49,000,000 Commonwealth Edison debentures are to be retired \$1,000,000 annually, leaving only \$1,000,000 at maturity. The \$25,000,000 United Gas first 2½s will be completely retired by the semiannual sinking fund. The \$18,000,000 Southern Union Gas first mortgage 2½s are to be completely retired by a 4 per cent annual sinking fund. The \$11,000,000 Equitable Gas debenture 3½s carry a sinking fund to retire the issue by maturity. The two large issues of Columbia Gas debenture 3s (aggregating \$200,000,000) each carry annual sinking funds to retire a substantial portion of the issue by maturity, and the Panhandle Eastern Pipeline debenture 2½s will also be largely retired by the due date.

Among the few preferreds carrying sinking funds were the \$6,300,000 El Paso Natural Gas convertible \$4.25 preferred and the \$5,000,000 Interstate Power 4.70 per cent preferred, while the small issue of Tide Water Power \$1.35 convertible preferred carried a sinking fund of 2½ per cent of income available for common starting in 1961. There may have been several other issues among those privately placed with institutions.

**T**HE Irving Trust record is of particular interest as furnishing the first practical test of the merits of competitive *versus* negotiated bidding. The bank's notations of "C" or "N" do not indicate how the occasional seminegotiated deals have been classified, and in a few cases the record is incomplete. However, an approximate tabulation indicates the following conclusions:

In mortgage bond offerings there is no direct test between the two methods since practically all the business was competitive. But it is interesting to note that only 47 per cent of the dollar amount went "well" and 7 per cent

"fairly well," while 5 per cent sold "somewhat slowly" and 41 per cent "slowly." In other words, nearly half the amount of this financing met with a poor reception, which seems to indicate that competitive bidding is not the best approach to institutional sales. Too frequently the successful syndicate has "stuck its neck out" by making a rather high bid, and the institutions decide to play a waiting game in hopes that the syndicate will weaken and "break" the price. Among debentures and notes a comparatively small part of the dollar total was negotiated, so that here too there is no fair test; but again we note that over half the business was slow (being reported "C" or "D" by the Irving).

**T**URNING to preferred stocks, which are usually considered somewhat "tricky," we note that according to the bank's records \$221,000,000 issues handled by the negotiated method were successful, while only \$33,000,000 appeared to be slow. On the other hand, of the \$80,000,000 handled competitively, the record was much the same as with competitive bidding on bonds—only a little over half were successful (\$18,000,000 were "well received," \$26,000,000 "fairly well received," \$5,000,000 "sold rather slowly," and \$31,000,000 "slowly").

Among the common stocks the evidence seems to favor the prevailing practice of negotiated bidding—only a small percentage of the \$268,000,000 underwritten and negotiated sales meeting with a poor reception and none being classed as "slow." Among the competitive issues, however, nearly one-third were considered slow.

Perhaps 1950 was an abnormal banking year because of the international situation, but nevertheless the figures are very interesting, and we trust that the Irving Trust Company will continue its compilations.

### Fuel Costs

**T**HE maps on page 175, compiled by the Edison Electric Institute, are



## PUBLIC UTILITIES FORTNIGHTLY

of considerable interest as explaining some of the fairly wide fluctuations in electric generating costs and kilowatt-hour rates. The maps do not indicate clearly the hydroelectric areas, though these would be principally the sections which are blank on both maps. Some areas such as Florida depend largely on fuel oil. It is interesting to note that cost of natural gas per million BTU does not get as high as 30-35 cents except in a small area in southern California, although only high-priced coal is available in large areas along the Atlantic seaboard, as well as in the northern states. The map does not indicate what the cost of natural gas as fuel (from the new pipelines) would be in the eastern and northeastern states—some gas may become available as fuel during the summer months, but would presumably be rather high-priced.

### Brokers' Analyses of Utility Stock

JOSEPH THAL & Co. has issued an analysis of *Northern Indiana Public Service* which we summarize as follows: The company operates in the area around Gary, Hammond, and East Chicago, which is active in the production of steel, machinery, electric equipment, automobile parts, etc. While the company was hard hit by the big depression of the early 1930's, the study indicates that this would be unlikely to recur again because of stabilizing factors such as unemployment insurance, union organization of labor, etc. In any event, the present armament demand should insure a high rate of production in steel and allied industries for some time to come.

Until recently, Northern Indiana Public Service was principally a transmission and distribution company, purchasing over 70 per cent of its power requirements in 1949. Generating capacity at that time consisted of 14 small hydro plants and an old steam plant. A new 66,000-kilowatt unit was installed last fall and a similar unit will be completed in the fall of 1951. Some-

time ago it was estimated that the first new unit would save about \$1,200,000 a year in operating costs. Since the study was prepared, the company has estimated that 1950 calendar year earnings might amount to \$1.97 if adjusted to a 47 per cent income tax rate and after allowance for an estimated 5 cents per share for excess profits taxes. (Josephthal had previously estimated *pro forma* earnings of \$2.20 a share, giving full annual effect to new operating economies.) The company's earnings have increased steadily in the past five years, and should benefit from increasing industrial activity in 1951, since industrial sales normally provide some 38 per cent of revenues. Economies from the new plant to be installed next fall are estimated at \$1,000,000 or about 17 cents a share after taxes. Moreover, the number of house-heating customers is expected to double, improving the earnings of the gas division, which has been contributing about 40 per cent of operating earnings.

The company formerly estimated that some \$20,000,000 additional capital would be necessary in 1951-52 to finance the \$38,000,000 construction program, but these figures may have to be revised upward. This may involve dilution of the common stock but on the other hand it will increase the EPT base (under either the invested capital or average earnings alternatives).

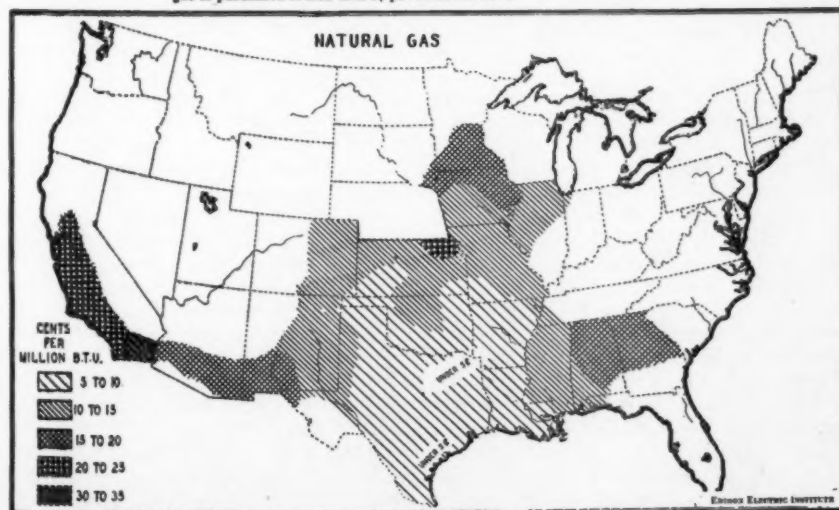
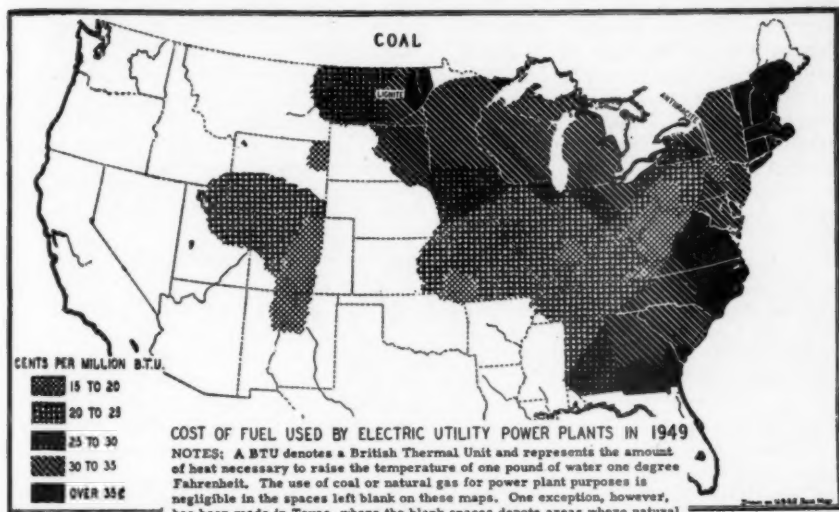
JOHN C. FEELEY of Paine, Webber, Jackson & Curtis has prepared a memo on *Niagara Hudson Power*, said to be the largest electric utility in the country, based on kilowatt-hour sales. While the company serves a heavy industrial load in important cities of upstate New York, the manufacturing industries are quite diversified and the area also includes rich farm territory. About 38 per cent of revenues are electric and of the latter 37 per cent reflects industrial business. The company is now changing over to natural gas (the transition is about completed in that portion formerly served with manufactured gas) and the gas divi-



## FINANCIAL NEWS AND COMMENT

sion's deficits of the recent past should now be changed to net gains. Some 49 per cent of the company's generating capacity is now steam and 41 per cent hydro, while 10 per cent of the power is purchased. The expansion of steam-generating facilities is continuing and

the company is hopeful of eventually obtaining additional hydro power from Niagara Falls. Earnings for the calendar year 1950 are estimated at \$2 and it is considered unlikely that the company will incur any excess profits tax in 1950 or 1951.



Courtesy, Edison Electric Institute

## PUBLIC UTILITIES FORTNIGHTLY

**PAINE, WEBBER** also issued a bulletin on *General Public Utilities*. The company directly controls Jersey Central Power & Light, New Jersey Power & Light, Metropolitan Edison, and Northern Pennsylvania Power, while the subholding company, Associated Electric, controls Pennsylvania Electric and the Philippine properties. Eventual disposal of Manila Electric seems probable, after which Associated Electric could be eliminated as a subholding company. Remaining subsidiaries in Pennsylvania and New Jersey are fully interconnected and the parent company is hopeful that the SEC will permit their retention intact. About \$55,000,000 was spent for construction in 1950 and \$50,000,000 is budgeted for 1951. The Central Bank of the Philippines recently authorized Manila Electric to resume interest and dividend payments for the first time since 1941, at an annual rate of \$2,100,000 but subject to an 18 per cent Philippine withholding tax (which can be recouped by deduction from U. S. income taxes, it is reported).

Geyer & Co., Inc., has prepared a review of five over-counter utility stocks—Central Illinois Public Service, Kentucky Utilities, New England Gas & Electric, Northern Indiana Public Service, and Wisconsin Power & Light Company.

**CENTRAL ILLINOIS PUBLIC SERVICE'S** earnings for the calendar year 1950 are estimated at \$1.68. The company is said to be planning an offering of new stock on a 1-for-10 basis in the near future; no other equity financing should be required through 1953, and by the end of that year an equity ratio around 33 per cent is anticipated. Sale of additional stock would dilute 1950 estimated earnings to around \$1.53. EPT (if any) would probably not amount to more than 2 cents or 3 cents a share.

The company has enjoyed rapid growth in the last decade, revenues having increased 114 per cent compared with 101 per cent for the industry, and further gains are anticipated in a war economy. A new 60,000-kilowatt unit

is scheduled for current installation and a similar unit in the fall of 1952, at which time nearly two-thirds of the generating facilities would be modern, permitting a high degree of operating efficiency. The stock has been selling recently around 16, to yield about  $7\frac{1}{4}$  per cent.

*Kentucky Utilities* has officially estimated its calendar year earnings at about \$1.60, and this amount will probably be exempt from EPT. Kilowatt-hour sales have increased 162 per cent since 1940 against the national average of 111 per cent. Further reductions in operating costs are expected from new generating facilities; a 30,000-kilowatt unit is scheduled to go into operation next July. Geyer & Co. estimates that earnings might increase by 20 cents a share next year because of the larger generating capacity, which will help to eliminate high-cost power purchases. The company has provided for financing all necessary construction through 1951. The stock, around 14, yields about  $7\frac{1}{4}$  per cent on the \$1 dividend rate (increased in 1950 from 80 cents).

**NEW ENGLAND GAS & ELECTRIC** is earning about \$1.45 and the EPT exemption is estimated by Geyer & Co. at \$1.90. A new steam-generating unit was added in July last year, and another should be completed this month. This will permit the company to discontinue the purchase of high-cost power from Boston Edison, with economies estimated at about 25 cents a share. In 1952, when natural gas becomes available in this area, another 34 cents a share might be saved in the gas division. Thus Geyer & Co. estimates that earnings might climb to \$2 a share on the present stock, which, however, would be lowered to \$1.70 if and when the convertible preferred stock is exchanged for common. The stock is selling around  $14\frac{1}{2}$  to yield about 7 per cent, based on the \$1 dividend rate.

Geyer & Co.'s analysis of *Northern Indiana Public Service* largely duplicates that of Josephthal (reviewed above). Geyer estimates that the com-

## FINANCIAL NEWS AND COMMENT

pany should develop earning power of about \$2 a share, assuming a 47 per cent income tax rate and complete conversion of the preferred stock. The stock has been selling around 21 to yield 6.7 per cent.

*Wisconsin Power & Light* is expected to eliminate high-cost purchased power by next June, when a 60,000-kilowatt steam unit should be completed. Earnings for the calendar year 1950 are estimated at \$1.60 a share, and 1951 earnings should benefit by the use of the new steam unit, improved water conditions, and availability of natural gas. The EPT exemption is estimated at about \$1.65. Geyer & Co. anticipates an increase in the \$1.12 dividend rate in 1951, since the surplus charge for intangibles should be completed this year.

KERR & Co. has prepared a memorandum on *Shawinigan Water & Power*, one of the largest producers of hydroelectric power in the world, with about 1,400,000 horsepower on completion of present construction. Because of the low rates in this area, many industries have located there—pulp and paper, aluminum, cotton and rayon textiles, asbestos, electrochemical companies, and a new titanium smelter. The company's business is largely wholesale under long-term contracts, which makes for stability and relative freedom from burdensome regulation. The capital structure is about 56 per cent debt, 11 per cent preferred stock, and 33 per cent common stock equity. Dividends have been paid continuously since 1907.

The company has two important non-utility subsidiaries—Shawinigan Chemicals and Shawinigan Engineering Company. The chemical company produces carbides, chemicals, stainless steel, and alloys. A major product is acetylene, which is used in the manufacture of solvents, plastics, artificial rubber, and the new synthetic fibers projected by Du Pont, Union Carbide, and Monsanto. (Shawinigan Resins Corporation is jointly owned by Shawinigan and Monsanto.) Shawinigan Chemicals has recently engaged in research on the rare

metals used in atomic energy, jet propulsion, etc.

In the nine months ended September 30th, utility earnings were \$1.21 a share versus \$1.15 in the corresponding previous period. Kerr & Co. estimates that including earnings from newly constructed plants, and making various *pro forma* adjustments, annual utility share earnings might equal \$1.75. Earnings from the chemical companies (now around \$3,000,000) might advance to \$4,000,000.

### St. Joseph Light & Power

IN a table which appeared on page 889 of the December 21st FORTNIGHTLY, St. Joseph Light & Power was listed as having earned 3.9 per cent in excess of 6 per cent on the estimated rate base in 1949—a total of 9.9 per cent. This latter figure should be corrected to 6.5 per cent.

As explained in the article accompanying the table, the basic figures were derived from ratios published in the 1950 Moody's Manual, with slight adjustments to allow for inclusion of working capital in the rate base. We regret to find that Moody's figures for St. Joseph Light & Power were not up to date. As shown on pages 1222-23 of the Moody's Manual, the 1949 "net earnings" of St. Joseph were stated as \$1,222,237, and this figure was used by them to derive "per cent net operating earnings to depreciated fixed assets" of 10.36 per cent (page 1224). The "net earnings" figure was based on an obsolete and misleading income account setup (not used by Moody for other utilities) in which non-operating earnings were included with revenues, and Federal and state income taxes were placed below "net earnings" along with "fixed charges." On a correct setup net operating income for 1949 would have been \$805,960. The net plant account was \$11,801,812, and adding 5 per cent for working capital the estimated rate base would approximate \$12,400,000. On the basis of the corrected figure for net operating income, the ratio to the estimated rate base would be 6.5 per cent and not 9.9 per cent.

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## RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

	1/9/51 Price About	Indicated Dividend Rate	Approx. Yield	Share Current Period	Earnings#— Previous Period	% In- crease	Price- Ratio Earn.	Div. Pay-out
<b>Natural Gas—Retail</b>								
C Arkansas Natural Gas....	11	\$ .60	5.5%	\$1.26d	\$1.44	D6	8.7	48%
O Atlanta Gas Light.....	13	1.20	5.2	2.23je	1.82	23	10.3	54
O Central Elec. & Gas.....	10	.80	8.0	1.17s	1.02	15	8.8	68
S Columbia Gas System....	13	.80	6.2	1.15s	.81	42	11.3	65
C Consol. Gas Util.....	12	.75	6.3	1.48ju	1.72	D14	8.1	51
S Consol. Nat. Gas.....	47	2.00	4.3	4.69s	3.51	34	10.0	43
S Equitable Gas .....	21	1.30	6.2	2.15s	—	—	9.8	60
O Houston Nat. Gas.....	15	.80	5.3	1.06ju	1.45	D27	14.2	75
O Indiana Gas & Water.....	20	1.20	6.0	2.14n	1.73	24	9.3	56
O Kansas-Neb. Nat. Gas....	17	1.10	6.5	1.63d	1.55	5	10.4	67
S Laclede Gas .....	7	.40	5.7	.80s	.67	19	8.8	25
C Lone Star Gas.....	26	1.40	5.4	2.15s	1.74	24	12.1	65
O Minneapolis Gas .....	18	1.00	5.6	1.55s	.86	80	11.6	65
O Mission Oil .....	42	2.20	5.2	3.60d	2.05	76	11.7	61
O Mobile Gas Service.....	27	1.60	5.9	3.39s	2.05	65	8.0	47
S Montana-Dakota Util. ....	12	.80	6.7	1.36s	1.36	—	8.8	59
C National Fuel Gas .....	12	.80	6.7	1.20s	.74	62	10.0	67
O National Gas & Oil.....	6	.40	6.7	.58d	1.40	D59	10.3	69
C Okla. Natural Gas .....	29	2.00	6.9	2.96o	3.20	D8	9.8	68
S Pacific Lighting .....	52	3.00	5.8	5.01s	3.18	58	10.4	60
C Pacific Pub. Serv.....	15	1.00	6.7	2.08d	3.21	D50	7.2	48
S Peoples Gas L. & Coke....	116	6.00	5.2	10.67s	6.84	56	10.9	56
C Rio Grande Valley .....	2	.12	6.0	.19d	.20	—	10.5	63
O Rockland Gas .....	35	1.70	4.9	4.41d	2.73	62	7.9	39
O Southern Union Gas.....	19	.80	4.2	1.58s	.95	66	12.0	51
O Southwest Nat. Gas.....	7	(a)	—	.28s	.22	27	—	—
S United Gas .....	20	1.00	5.0	1.54s	1.30	18	13.0	65
S Washington Gas Light....	26	1.50	5.8	3.26s	1.10	196	8.0	46
Averages.....			5.8%				10.1	
<b>Natural Gas—Wholesale &amp; Pipeline</b>								
S American Natural Gas....	28	\$1.60	5.7%	\$2.27s	\$1.44	58	12.3	53%
O Commonwealth Gas .....	11	.15	1.4	.62d	.68	D9	17.7	24
S El Paso Nat. Gas.....	25	1.40	5.6	1.89o	1.76	7	13.2	74
O Interstate Nat. Gas.....	34	2.50	7.4	2.50d	2.03	23	13.6	100
O Mississippi River Fuel....	32	2.00(b)	6.3	3.24s	1.99	63	9.9	62
O Missouri-Kansas P.L.....	42	1.60	3.8	4.24d	1.32	221	9.9	38
O Mountain Fuel Supply....	17	.60	3.5	.91d	.91	—	18.7	66
S Northern Nat. Gas.....	33	1.80	5.5	2.43s	2.44	—	13.6	74
S Panhandle East. P.L.....	41	2.00	4.9	2.66s	2.36	13	15.4	75
S Southern Nat. Gas.....	37	2.50	6.8	3.87s	3.00	29	9.6	59
O Tenn. Gas Trans.....	25	1.40**	5.6	1.46s	1.24	18	17.1	96
O Texas East. Trans.....	17	1.00	5.9	1.80s	1.41	28	9.4	56
O Texas Gas Trans.....	18	—	—	1.18je	.76	55	13.3	—
Averages.....			5.2%				13.5	
<b>Manufactured Gas—Retail</b>								
C Bridgeport Gas .....	23	\$1.40	6.1%	\$1.88d	\$1.60	18	12.2	74%
O Brockton Gas Lt.....	19	1.40	7.4	1.48d	.43	244	12.8	95
S Brooklyn Union Gas .....	40	2.25	5.6	4.39m	—	—	9.1	46
O Hartford Gas .....	35	2.00	5.7	2.67d	1.85	44	13.1	75
O Haverhill Gas Lt.....	30	1.80	6.0	1.90n	2.31	D18	15.8	95
O Jacksonville Gas .....	30	1.40	4.7	4.77d	6.12	D22	6.3	29
C Kings County Ltg. ....	74	.40	5.3	.64d	—	—	11.7	63
O New Haven Gas Light....	27	1.60	5.9	1.70d	1.76	D4	15.9	94
O Providence Gas .....	9	.60	6.7	.56d	.73	D30	16.1	107
O Seattle Gas .....	14	.60	4.3	1.31s	1.30	—	10.7	46
S United Gas Improvement..	28	1.40	5.0	2.05s	1.91	7	13.7	68
Averages.....			5.7%				12.5	

# FINANCIAL NEWS AND COMMENT

## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

	1/9/51 Price About	Indicated Dividend Rate	Approx. Yield	Share Current Period	Earnings# Previous Period	% In- crease	Price- Earn. Ratio	Div. Pay-out
<b>Communication Companies</b>								
<i>Bell System</i>								
S Amer. Tel. & Tel. ....	151	\$9.00	6.0%	\$11.98ag*	\$8.91*	34%	12.6	75%
O Cinn. & Sub. Bell Tel....	73	4.50	6.2	4.80d	3.76	28	15.2	94
C Mountain St. T. & T....	101	6.00	5.9	7.02s	6.86	2	14.4	85
C New England Tel.....	97	4.75	4.9	11.36s	5.85	94	8.5	42
S Pacific Tel. & Tel.....	104	7.00	6.7	8.65n*	6.32*	37	12.0	81
O So. New Eng. Tel.....	33	1.80	5.5	2.05d	1.91	7	16.1	88
Averages.....			6.0%				12.9	
<i>Independents</i>								
O Central Telephone .....	11	\$ .80	7.3%	\$1.23s	\$1.18	4%	8.9	65
S General Telephone .....	28	2.00	7.1	2.11s	1.55	36	13.3	95
C Peninsular Tel. ....	41	2.50	6.1	4.69d	4.71	—	8.7	53
O Rochester Tel. ....	13	.80	6.2	1.62ag	—	—	8.0	49
<b>Transit Companies</b>								
O Chicago SS. & S.B.....	11	\$1.00	9.1%	\$ .91d	\$1.40	D35%	12.1	110%
O Cinn. St. Ry.....	7	.30	4.3	.84d	.77	9	8.3	36
O Dallas Ry. & Term.....	11	1.40	12.7	1.39d	2.27	D39	7.9	101
O Duluth Sup. Trans.....	4	—	—	.79d	.44	80	5.1	—
S Greyhound Corp. ....	12	1.00	8.3	1.31s	1.35	D3	9.2	76
O Kansas City P.S. ....	1	—	—	—	—	—	—	—
O Los Angeles Transit ....	44	.50	11.1	.84d	.93	D10	5.4	60
S Nat. City Lines.....	10	1.00	10.0	1.75d	1.97	D11	5.7	57
O St. Louis P.S. A.....	8	.50	6.3	.48d	.70	D31	16.7	104
O Syracuse Transit .....	18	2.00	11.1	.62d	1.40	D13	—	323
O United Transit .....	4	—	—	.55d	.13	246	7.3	—
Averages.....			9.1%				8.6	
<b>Water Companies</b>								
<i>Holding Companies</i>								
S Amer. Water Works ....	94	\$ .60	6.7%	\$1.01s	\$ .92	10%	8.9	59%
O N. Y. Water Service....	24	.63	2.4	1.63s	.94	74	12.6	31
<i>Operating Companies</i>								
O Bridgeport Hydraulic ....	32	\$1.60	5.0%	\$1.57d	\$1.78	D12%	20.4	102%
O Calif. Water Serv.....	27	2.00	7.4	2.62n	2.46	7	10.3	76
O Elizabethtown Water ....	106	6.00	5.7	8.37d	6.89	21	12.7	72
S Hackensack Water .....	31	1.70**	5.5	3.35d	2.79	20	9.3	51
O Indianapolis Water .....	18	.80	4.4	1.33d	1.42	D6	13.5	60
O Jamaica Water Supply....	21	1.50	7.1	1.76s	.67	163	11.9	85
O Middlesex Water .....	53	3.00	5.7	4.87d	4.94	D2	10.9	62
O New Haven Water.....	57	3.00	5.3	3.45d	3.61	D4	16.5	87
O Ohio Water Serv.....	19	1.50	7.9	1.67je	2.15	D22	11.4	90
O Phila. & Sub. Water.....	25	.80	3.2	3.49d	3.01	16	7.2	23
O Plainfield Union Wt.....	60	4.00	6.7	5.09d	5.02	1	11.8	79
O San Jose Water.....	30	2.00	6.7	2.95n	2.86	3	10.2	68
O Scranton-Spring Brook ...	12	.70	5.8	1.14s	.83	37	10.5	61
O Southern Cal. Water.....	9	.65	7.2	.73s	.79	D8	12.3	89
O Stamford Water .....	55	2.00	3.6	2.35d	2.21	6	23.4	85
O West Va. Wt. Service....	17	1.20	7.1	1.22s	1.38	D12	13.9	98
Averages.....			5.9%				12.9	

D—Deficit. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. \*Based on average number of shares outstanding. \*\*Also 25 per cent stock dividend. #In order to facilitate comparisons, earnings are calculated on present number of shares outstanding, except as otherwise indicated. (a) Stock dividend of 50 per cent payable July 1st, and cash of 10 cents payable same date (on new stock); 25 cents paid in 1949. (b) Also 10 per cent stock dividend. d—December, 1949. m—March, 1950. ap—April. my—May. je—June. ju—July. ag—August. s—September. o—October.





# What Others Think



## Big Business Sabotaged

THE importance of coöperation among big business, small business, and the government in any defense production effort was pointed out recently by Henry B. du Pont, vice president of the E. I. du Pont de Nemours Company before the annual banquet of the chamber of commerce in Tulsa, Oklahoma. He said:

In Korea the American soldier has proved himself to be as courageous and resourceful as ever. He performed well under fine leadership. But, no matter how great the bravery, the training, and the stamina of the individual fighting man or the number of troops his country can muster—modern wars are won in the end by that country which has the largest, the best organized, and the most capable industrial machine. To have a second-best production machine is like having a second-best Navy, pretty good up until the time that it is destroyed. This was proved in World War I and again in World War II.

The chemical industry executive stated that we need have no fears as to the inventiveness and productivity of American industry. He added that ten years ago we faced another crisis, with demands that went far beyond anything ever heard of at that time. He recalled that some of the early estimates of military needs seemed staggering, and yet before the war was over the goals had long since been exceeded and even larger quotas were being met every day.

He then stated:

It was a tremendous effort. It was an effort which required the coöperation and teamwork of large industrial organizations, small businesses, labor, management; men and women in all walks of life.

WHETHER the present emergency will prove to be one of similar or even greater proportions, we do not yet know. It is obvious, however, that the crisis we face is as great as any in our nation's history. It is possible that military spending may equal or even exceed that of the last war, the speaker added.

Du Pont then turned to the present emergency. He pointed out that much of this program is, at present, in the planning and blueprint stage, and added that many of these prime defense contracts will undoubtedly be placed with big companies. He observed that there is little doubt that there will be criticism that so many contracts have been placed with big companies. He continued that such statements are false and misleading. They presume that we have two opposing forces in our industrial system, in which the large company—big business—is on one side and the little company, or small business, on the other. They presume that the two camps are in violent competition with one another for favors from the government in the way of defense contracts.

He admitted that 75 per cent of the World War II prime contracts went to the 100 largest companies despite the fact that the government made a determined effort to channel war orders into the hands of small business. But it is not true that this condemned the small businessman to sit on the side lines and watch the show. He continued:

The facts are that the military authorities do not place the major responsibilities for defense contracts on the large corporations because they have any particular affection for big business, or any lack of confidence in small business. Their objective is simply to get big jobs done quickly and efficiently



## WHAT OTHERS THINK

by whatever business unit is best fitted to do the job. They know, and the critics apparently ignore the fact, that when a contract is placed with such companies as General Motors, or General Electric, or Du Pont, it really activates an entire chain of operations in which companies of all sizes and all descriptions participate.

**T**HE speaker added that the large company is selected to handle big jobs because it has the resources and organizational experience to muster and direct man power and technology from hundreds of different sources and funnel them all into the project. It organizes the work, delegates responsibility down the line, and procures services and materials as they are needed. He then said:

No, I don't think you can show that the big firms took advantage of the small or that the small were shouldered out of the way in the pay line. Rather, all of us lined up together and did the job together as a team. . . .

It seems to me that the answer lies in the conditions under which our industry has developed. Under the traditional American system, we have enjoyed a measure of economic freedom unknown in other nations.

He then traced the history of individual accomplishment in a country of free men. Du Pont pointed out that individual freedom has provided the initiative through which Americans have developed their business units to whatever size was required for maximum efficiency in producing what people wanted. Because the demands of the people for more and better goods have grown so enormously, the size of the business units necessary to fill these demands has had to grow as well, so today we have some very large companies—"the companies which have become known as Big Business." He continued:

Big business is the direct result of big demands. The American people are not content with a standard of living that prevails in most parts of the world.

They need and want many things that a small business working alone could not hope to give them—automobiles, mechanical appliances of all kinds, huge quantities of electric power, fast transportation by air and rail, a great variety of clothing. These are things that can be produced only by mass production, and mass production calls for large operating units.

**H**E went on to say that through the big companies the savings of thousands of investors have been put to work, supplying the capital and creating the large technical organizations which make these new developments possible. Yet this by no means excludes the smaller companies with smaller numbers of investors from the show—they find their most useful and profitable opportunities in those jobs which can best be done by smaller organizations.

Du Pont then announced:

Therefore, if I were a Communist spy, assigned by the Kremlin to come over here and head up a program to do the maximum harm to the United States, my study of the situation would clearly show that the best way to hurt this country's defense effort would be to sabotage its industrial system.

Now sabotage is a word that is usually applied to an act to harm some vulnerable part of a plant's equipment. In times of war, nations are always on the lookout for it, and adequate precautions are taken to safeguard against trouble. As a result, acts of violence to vital installations or to machinery and equipment are extremely rare. . . . To accomplish effective and permanent damage I would plan a subtle campaign to turn the public against the American business system and to create dissension in the business machine itself, so that the various elements would begin to quarrel with each other instead of being partners and teammates.

**H**E added that it would be very effective if he could influence small businessmen and people in various walks of life to become increasingly suspicious and

## PUBLIC UTILITIES FORTNIGHTLY

critical of the big business units. He went on to say that it would be most gratifying if these suspicions could be turned into political issues which would result in oppressive taxation and discriminatory regulations for the big concerns and the government ownership of important industries. Du Pont continued:

My investigations would have indicated that there are already many people, most of whom consider themselves sincere Americans, who are suspicious and critical of big business and wealth in any form. So, my undercover organization would seek every opportunity to give such people support and encouragement so that they would increase in numbers and influence.

I would work deep down in the very fabric of American life. I would plant germs of propaganda in such organizations as parent-teachers' associations, women's auxiliaries, church organizations, welfare organizations, farm groups, and others.

He went on to say:

Soon I would have lots of people unwittingly giving me their help in the campaign. These people would not be Communists and no attempt would be made to swing them over to communistic thinking. The Communists don't worry about swinging Americans over to their political belief. They don't care how many of us are Communists, Socialists, Democrats, or Republicans. All they want is to have the United States weakened and they know it can be accomplished more quickly and easily by influencing loyal Ameri-

cans to become misguided in their thinking and adopt measures that would put our country in the same plight as Great Britain.

HE noted that the stories he would spread would sound very plausible to the uninformed. He added that he would have all kinds of people going about telling their neighbors, for instance, that big companies are bent on driving the little fellows out of business; that they arbitrarily fix prices; that they suppress inventions; that they make exorbitant profits; that they hold the power of life and death over small business. He further stated:

I would like that word "power." It sounds so satisfactorily sinister and I wouldn't have to explain what it means.

Then, if this program of propaganda resulted in legislation to break up large units of American business and to provide for government ownership of basic industries, think of the delight back in the Kremlin. My stock in Red Square would stand pretty high. Perhaps my picture would be displayed alongside of Uncle Joe's.

He concluded by noting that if, after many months of campaigning, he found that the American people were not being fooled, that they were not forsaking the principles which made their country great, and that they were not returning to public office men who advocate measures which would lead us right down the road to Socialism, he would have to report that the United States was unbeatable.

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## Transmission Line Debate

As the curtain was about to go down on the 81st Congress, the Senate found itself in controversy over the question of permitting a Federal agency (Interior Department) to build a power transmission line from the Federal Buggs Island dam on the Roanoke river to Langley Field, Virginia. A privately owned util-

ity (the Virginia Electric & Power Company) had offered to carry the power to the establishments at Langley Field in connection with the company's existing lines to the field.

Time was running out on the Senate when the question arose, and the Supplemental Appropriation Bill, of which

## WHAT OTHERS THINK

this appropriation was a part, was a "must" measure. The Senate finally voted 43-41 to allow the Interior funds for the construction of the line. Some excerpts from the debate in the closely divided Senate follow.

Senator Hayden, Democrat of Arizona, favored passage of the amendment only as a tool to use in negotiating with the utility:

MR. HAYDEN. If Congress arms the Department of the Interior with the money to build this line, we shall, in my judgment, get from the Virginia Electric & Power Company a satisfactory agreement to wheel and distribute the power at a reasonable cost, an arrangement which will materially reduce the price paid by the government heretofore for power at Langley Field.

SENATOR ROBERTSON, Democrat of Virginia, expressed the views of the Virginia delegation:

MR. ROBERTSON. Mr. President, the Senator, of course, knows that the Senators from Virginia, North Carolina, and other states are very much opposed to this item, yet all of us have been disturbed by the statement of the distinguished chairman of the committee that unless the Senate recedes he feels that there will be little chance of completing action on this bill. Certainly every member of the Senate wants to put the defense needs first. Senators do not want to delay for one day, much less for a month, the letting of a contract, if such delay would involve bringing forward a new bill at the next session and holding the necessary hearings thereon.

The distinguished Senator from Arizona has said, if I understood him correctly, that if we get a satisfactory contract from the Virginia Electric & Power Company to wheel the power from Buggs Island to Langley Field, or wherever the government might want it delivered, he does not think this money should be spent for a government transmission line to parallel the existing lines of a tax-paying utility.

MR. HAYDEN. Mr. President, in substance, I agree with what the Senator says. In the absence, however, of authority to build the transmission line, this company has shown no indication of doing anything even resembling a fair wheeling agreement. If we get a fair wheeling agreement, we ought to treat them just as we did the Oklahoma and Texas power companies, just as we have treated the Colorado power companies, and the Montana power companies. If the contract is advantageous to the government, if we can get a rate which will move the power to the preferred customers of the government—and Langley Field is, of course, the outstanding preferred customer—it will save the government money; it will avoid the necessity of constructing a new transmission line. If the private company will deliver the power in necessary quantities whenever it is needed and at a reasonable price, there would then be no necessity of making this appropriation. But I say the government must have the ability to build the transmission line in order to assure that it gets the kind of contract which should be written.

Robertson then restated his understanding of the Hayden proposal:

MR. ROBERTSON. Would it be a fair statement of the Senator's position to say that, if those of us who are putting defense needs first do not continue this fight, but yield to the proposal, as I understand made by the distinguished Senator from Arizona, that there will be a moral obligation upon the Department of the Interior not to spend this money until it has determined whether it can obtain a desirable contract?

MR. HAYDEN. That is exactly what was stated, in all the other cases.

ROBERTSON then took the floor and explained the circumstances surrounding the measure:

MR. ROBERTSON. Mr. President, I should like to summarize the issues

## PUBLIC UTILITIES FORTNIGHTLY

involved. We are having a power plant built at Buggs Island, which is partly in Virginia and partly in North Carolina. It has been a long pull to get the plant built. It was sponsored by the Roanoke River Development Basin. Every sponsor and every supporter of the program contemplated that the power would be used in the basin.

On December 12th, before the House acted, the Virginia Electric & Power Company offered a new contract to the government at Langley Field. They testified before us that in their opinion the rates under that contract were less than the contract offered by the Southeastern Power Administration. On December 20th, the power company wrote a letter to Langley Field and said, "Since we offered you this agreement on December 12th you have received a proposal from Southeastern. We will give you the exact terms that Southeastern has offered to you."

That is the reason we asked the Committee on Appropriations not to appropriate the money in the present emergency, particularly in view of the scarcity of copper.

The Virginia Senator continued:

... We must finish action on the bill today. I merely wish to say that if in the present emergency we are forced to compromise in behalf of our defense on a principle for which we have stood I hope it will be clearly understood that there will be no shilly-shallying with us by the Department of Interior if we say, "You are not to spend this money until we have seen whether you can get a suitable contract." We expect them not to spend the money until such time, and the contract has already been offered.

**SENATOR CORDON**, Republican of Oregon, spoke in opposition to the amendment but stated that he would support the bill and the amendment in order to expedite passage of the bill.

**MR. CORDON.** Mr. President, I wish to say first to my colleagues that I hope

they will keep in mind that we have before us a \$20 billion supplemental appropriation bill for defense purposes. The amendment now under discussion provides funds for a first instalment of some \$7,000,000 for the construction of parallel transmission lines from Buggs Island generating plant to Langley Field, for the purpose of supplying electric energy to a government defense installation at Langley Field.

Two offers have been made by the Virginia Electric & Power Company. The undisputed testimony before the committee was that the total necessity at Langley Field could be met by the Virginia Electric & Power Company from generating sources which it now has in existence or under construction, at a time prior to the time the electricity would be needed, for less money than the Federal government could supply it from Buggs Island.

**CORDON** then indicated his support of the Hayden proposal that the Interior Department make every effort to negotiate with the utility before building the transmission line:

The Senator from Arizona (Mr. Hayden) and I have worked on these problems time after time. I join with him in voicing the hope that when this money is made available the Interior Department will understand that it is made available solely for the purpose of building lines if the contracts mentioned cannot be executed. When we say that we mean contracts based upon the Texas, Oklahoma, Colorado, and Montana wheeling contracts. That does not mean giving control over government power to anyone but the United States government. The people get the benefit of the power just as they would if the government were to spend its dollars to do the same thing.

Having made that statement, I shall not oppose the motion, although I regret that we do not have time to present the entire case and reach a decision which, in my opinion, the facts warrant.

## WHAT OTHERS THINK

Senator Hoey, Democrat of North Carolina, discussed the matter in part as follows:

I am opposed to the government building transmission lines or engaging in private business anywhere if private enterprise will meet the conditions and respond to the needs.

The Senator from Arizona (Mr. Hayden) has very strongly stated the position of the Senate with reference to the other contracts. I believe that the same policy should be pursued in this case. At this time I shall not oppose adopting what the House has done, because I think to do otherwise would jeopardize the entire appropriation bill. However, I think it ought to be distinctly understood that the mind and thought of the Senate is not that the government should go into private business and build transmission lines when private enterprise is willing to do it and wheel the power at a price comparable to that which the government could achieve by its own action.

As the deadline for debate on the issue drew near, the following colloquy occurred between Senators Ferguson, Republican, of Michigan, and McKellar, Democrat, of Tennessee:

MR. FERGUSON. Mr. President, the question I wish to ask the Senator from Tennessee is this: Would it be possible for the Senator from Tennessee to talk to the Secretary of the Interior and obtain from him an understanding that before he will proceed to build this line

with the government's money he will notify the Senate, and wait at least thirty days? Can the Senator obtain such an understanding so the Senate may act today on the emergency legislation?

MR. MCKELLAR. Mr. President, I have not talked with the Secretary of the Interior at all on the subject.

MR. FERGUSON. Can the Senator talk to him and come back to the floor with an answer?

MR. MCKELLAR. I do not think so. We have just a few minutes left. If the Senator wants to vote against the report, he can do so; that is all.

The issue was forced to a record vote when Senator Bridges, Republican, of New Hampshire, closed the debate:

MR. BRIDGES. Mr. President, the issue involved here is a question of private enterprise *versus* operation by the Federal government. In so far as public power is concerned, when private enterprise refuses to give service for a comparable figure, then, of course, the Federal government is entitled to enter the field, and should do so. However, when private enterprise is willing to render the same service for a comparable price, in these days of war in Korea, when there is such a tremendous burden on the finances of the Federal government, we have no obligation to have the Federal government enter the field, and, in my judgment, no right to have the government do so. That is the issue; and on that issue I ask for the yeas and nays.

**“WE** are racing down a 4-lane super highway which terminates in Socialism whether you call it welfare state, collectivism, or something else.

“If increasing taxes or deficits to meet continuously higher Federal expenditures is to be our course it is obvious that neither our system nor our form of government can endure. . . .

“If the crisis is not met by expenditure reduction to a balanced budget without additional taxes, perhaps there are some who would prefer the British mess of Socialism as something more desirable than the free enterprise system.”

—HARRY FLOOD BYRD,  
U. S. Senator from Virginia.





# The March of Events

## In General

### Safety Anniversary Noted

**T**HE public utilities section of the National Safety Council, of Chicago, recently ended thirty-five years of service to the industry.

At the time of organization, the accident prevention problems facing the council and the newly formed utilities section would have dismayed less determined and persevering souls, according to H. S. Hannaford, general chairman of the executive committee.

In a brief statement on the anniversary, Mr. Hannaford said:

... Looking back, we can take pride in the section's record of outstanding accomplishment. In fact, the question often heard in some circles today is, "Have we reached the leveling-off point in the reduction of accidents?"

General trends show that 15 per cent of all accidents are due to failure of equipment while 85 per cent are due to the human element. The few that might be termed "acts of God" are negligible.

Instead of making our problems non-existent or insurmountable, it seems to me that the need for reducing accidents by working with the human side of the problem is both stimulating and challenging. We must, of course, not weaken our efforts in connection with the failure of equipment, but the real "pay dirt" lies in the field of attitudes and behavior.

We are facing a period of intensive mobilization, the ultimate end of which no one can predict. More than ever before, we need the best that is within us. The accomplishments of the public

utilities section in accident prevention during the recent war serve as an inspiration.

Closing his statement with an invitation to the public utilities to present their safety problems to the council, Mr. Hannaford also announced the appointment of Frederick G. Harriman, safety manager of the New England Power Service Company, of Boston, as editor of the *Safety News Letter* of the public utilities section.

### Steel Capacity Reaches Record High

**A**N increase of more than 4,800,000 tons during 1950 has raised the annual steel capacity of the nation to 104,229,650 tons, an all-time high level, according to the American Iron and Steel Institute.

The new capacity figure, as of January 1, 1951, is an increase of 22,600,000 tons, or nearly 28 per cent, since 1940, and a gain of almost 13,000,000 tons since 1947, the institute said, adding that the industry's blast furnace capacity, now rated at 72,471,780 tons, has risen more than 6,700,000 tons since 1947.

The amount of increase in steel capacity last year was more than 1,000,000 tons greater than indicated in an announcement last October by Secretary of Commerce Charles Sawyer on the basis of the best information obtainable then concerning the companies' expansion and improvement programs which have been greatly widened since the Secretary's announcement.

In addition to expansion of blast fur-



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nace capacity, the industry plans expansion of coke-oven capacity and a number of new rolling mills.

The new record high steel capacity as of January 1, 1951, is more than 2,000,000 tons above the output of steel last year in all the countries outside the United States, as estimated by two responsible steel trade publications, the institute said.

### Tidelands Issue Revived

SINCE the U. S. Supreme Court's ruling of last year, sustaining the Federal government's "paramount" rights to gas, oil, and mineral deposits beneath submerged coastal lands, there has been an upsurge of determination by oil state members of Congress to push through legislation which will nullify the high Court's decision.

As this issue of the FORTNIGHTLY went to press, more than a score of bills to return tidal mineral rights to the coastal states had been introduced. It is to be expected that another dozen will be "dropped in the hopper" in the not distant future.

In the meanwhile, sponsors of these measures are confident that they can effect their passage by comfortable majorities, while some are openly stating they have sufficient strength to override a presidential veto. Among them is Representative Ed Gossett (Democrat, Texas) who asked to be quoted:

This Congress will pass—and over any presidential objection—a states' rights gas and oil bill which will nullify the Federal steal which was sanctioned by the Supreme Court.

## Arizona

### PPD Draws Union Fire

MANAGEMENT of the Salt River Project Power District is using public ownership in an old-fashioned campaign of "union busting," according to Daniel W. Tracy, president of the AFL International Brotherhood of Electrical Workers. Tracy made his charge in connection with a strike of approximately 1,200 members of IBEW Local 266 of Phoenix, who are employed on the electric light and power system and irrigation properties owned by the district.

He said the labor dispute involved two issues: (1) the refusal of the public power district to continue a four-year-old

collective bargaining agreement which was entered into between the IBEW and the private institution which previously operated the project; and (2) the refusal of the public power district to make adequate correction of the present substandard wage scales of its employees.

Claiming that it is a government institution, the power district has sought a permanent court order enjoining the IBEW from trying to secure a collective bargaining agreement with the district which the employees had while the project was under private operation. The project was transferred to public operation by Interior Secretary Oscar L. Chapman on October 4, 1949.

## California

### Fare Review Rejected

THE state supreme court has rejected a petition for review of the increase in commuter fares over the Southern Pacific Railway between San Francisco and San Jose and intermediate points. The

increase was authorized last August by the public utilities commission.

Petitions for review were filed by H. R. Whiting, Menlo Park attorney, and Myron D. Alexander, Palo Alto attorney. Both petitioners are commuters affected by the fare increase.

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### District of Columbia

#### Transit Map Sales Pay Off

FOR a number of years, the Capital Transit Company, serving the nation's capital and near-by Virginia and Maryland, has distributed, free of charge, a 24" x 33½" guide map of its streetcar and bus lines. Attractively printed in three colors, the map has proved of great service to newcomers, as well as to the more than 500,000 tourists visiting Washington annually.

This year, because of sharply increased printing costs, the company decided to charge 10 cents per copy for the map. Accordingly, it was advertised in the company's little giveaway semimonthly

publication, *Transit News*, distributed only in company vehicles. Maps were made available, either by mail or at the company's centrally located downtown office.

Despite this charge for something which had been free for a decade, public response to the advertisement proved "more than gratifying," according to Vice President E. C. Giddings. He reports that average weekly sales are nearing the rate of distribution which prevailed when the maps were given away.

Continued as a free publication is the company's pamphlet "So . . . You Want to See Washington," which lists 10 three-hour tours of Washington.

### Illinois

#### Rate Increase Reaffirmed

THE Illinois Commerce Commission has reaffirmed its order of August 16, 1950, which authorized the Peoples Gas Light & Coke Company to increase its rates on gas sold to commercial and industrial users on an interruptible and

off-peak basis. The increase was approximately one-half cent per therm.

On October 3rd, the commission granted the petitions for rehearing and heard additional testimony on October 23rd and November 8th, at which time the case was taken under advisement.

### Kentucky

#### Rate Saving Reported

THE director of law of the city of Louisville, Gilbert Burnett, in a recent report to the mayor, claimed considerable benefits would accrue to the city of Louisville as a result of recent gas and electric rate reductions. The case, which was conducted by the city's own legal department, grew out of the conversion of the local gas supply from mixed to natural gas. Both gas and electric service in Louisville is furnished by the Louisville Gas & Electric Company. As a result of conferences between the company and the city's counsel and the staff of the public service commission of Kentucky, rate revisions benefiting Louisville consumers approximating \$588,000 were put into ef-

fect pursuant to an order of the commission dated November 27, 1950.

The memorandum to the mayor noted the cooperation among the state, city, and utility officials in working out the solution. By way of comparison, it was observed that five years ago the city employed outside talent and spent over \$65,000 in fees to prosecute a rate case which resulted in savings of less than \$500. The report also pointed out that no other major commodity (as distinguished from utility service) has been reduced in price during the current inflationary era.

The electric rates in Louisville under the new state commission order were said to be less than the rates in the four largest Tennessee cities served by TVA (for 100 and 200 kilowatt hours). This compari-

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son allows only for the deduction of the 3½-cent Federal excise tax paid by the privately owned tax-paying Louisville utilities. It does not make any additional allowance for Federal income tax, state income tax, interest on bonds, and other charges which publicly owned and operated services escape.

The report was prepared by Alan N. Schneider, assistant city attorney in charge of the rate negotiations. Compliments were paid to the state commission and to Charles W. Smith, chief accountant of the Federal Power Commission for valuable assistance in connection with the case.

### Massachusetts

#### Utility Rate Increases, Decreases Compared

**N**ET increases of utility rates in the Bay state for the year 1950 amounted to approximately \$250,000, according to a compilation of rate cases for the year made by the Massachusetts Department of Public Utilities. Total increases were slightly over \$1,500,000, while the total decreases in gas and electric rates approximated \$1,250,000 the compilation revealed.

Bus and street railway systems secured approval of increases in fares totaling \$599,660. One gas company received approval of new schedules affecting all customers to bring in \$85,850 additional annual revenue.

Approved increases on intrastate mes-

sage rates will increase annual revenue for the Western Union Telegraph Company by \$10,329, and approved increases for the Railway Express Agency added up to \$103,014 annually.

As a result of investigation on its own initiative after an analysis of the 1949 returns of electric companies operating in the state, reductions in the rates of 15 were ordered, totaling \$1,093,185.

Fare increases approved by the DPU included \$40,000 for the Northampton Street Railway; \$20,000 for the Short Line, Inc.; and \$1,545 for the Springfield-Agawam Lines.

Two electric companies which reduced their rates as a result of the DPU order were the Western Massachusetts Electric Company, \$386,000, and the Northern Berkshire Company, \$100,697.

### Nebraska

#### Civil Defense Measure Would "Draft" Utilities

**G**OVERNOR Val Peterson (Republican) has proposed civil defense legislation which would give his office control over public utilities in the event of all-out mobilization or total war.

The bill, which he suggested in his inaugural message, follows the suggestions contained in the booklet "United States Civil Defense" issued from Washington.

Under the proposed measure, the governor would be authorized to assume control over all public utilities of the state in serious defense emergencies.

### North Carolina

#### Seeks River Development

**L**OCAL control of North Carolina power developed in connection with flood prevention on all major streams within the state was recommended by Governor Scott in his recent message to the state

legislature. Power thus generated, he said, should be distributed not by the government, but by private utilities, municipalities, and REA cooperatives.

Discussing public utilities in his address, the governor called for continuance of progress in the power and telephone

## PUBLIC UTILITIES FORTNIGHTLY

fields. He also urged enactment of legislation requiring all utilities to apply for

franchises from the state utilities commission.

### Tennessee

#### New Utility Bills Offered

MUNICIPAL authorities of the Volunteer state are interested in a new bill, introduced in the current session of the state legislature by Representative W. B. Foster, of Cookeville, which would enable cities and counties to own and operate natural gas systems and issue bonds for the financing of such systems. At present, natural gas systems are not included in the list of public works which municipal governments may own, operate, and finance through issuance of bonds.

Another bill introduced in the current session by the Davidson county delegation would make utility districts which furnish water, electric power, and other services in certain sections of the state subject to supervision by the state railroad and public utilities commission. There is some doubt that the measure would apply to REA-financed coöperatives which, only recently, have been held by the National Labor Relations Board to be either in interstate commerce or public utilities or both.

### Vermont

#### Power Planning Urged

“FURTHER power development must go hand in hand with economic development,” according to Governor Emerson in his inaugural message to the state legislature. He recommended (1) development of feasible power sites without doing injury to agriculture; (2) flood-control dams to store water for power purposes; (3) development of firm sources of power by tie-ins; (4) submission of data by utilities to the state

public service commission of anticipated growth for the next decade, and plans to meet the growth; (5) authority to the state commission to determine and order where needed high-power transmission lines and system integration.

Emerson also recommended that the state commission be authorized and instructed “to make a study of the possibility of procuring natural gas by pipeline into Vermont and make a report to the governor thereon as soon as it is possible to do so.”

### Wisconsin

#### Utility Rates Kept Below Other Prices

PUBLIC utility rates in Wisconsin have been kept well below the increases in other prices and the increased purchasing power of workers, according to John C. Doerfer, public service commission chairman.

Chairman Doerfer said that taking 1939 as 100, the cost of living in the United States as of September 1, 1950, is up 73.6 per cent. Compared to this,

telephone rates have advanced 40.3 per cent; water rates are up 10 per cent; gas rates up 9.4 per cent; while electric rates are down 6.1 per cent.

During the same 11-year period, the chairman continued, food prices have moved up 120.6 per cent, factory wages have mounted 139.5 per cent, and building costs have advanced 153.6 per cent.

In a recent Madison speech, Mr. Doerfer said that not all of the commission's problems arise from regulating the so-called monopolistic utilities.



## Progress of Regulation

### Natural Gas Company Places New Nondomestic Consumers on Interruptible Basis

THE Missouri commission authorized three natural gas companies to provide interruptible gas for new customers having demands or installed facilities capable of handling natural gas in excess of 300 cubic feet per hour. Consequently, future gas service may be denied to such new customers unless they are willing to accept that service subject to interruption whenever required by the utilities for reasons deemed sufficient by them.

The companies obtained their natural gas supply from the Panhandle Eastern Pipe Line Company. In proceedings before the Federal Power Commission it has been proposed that contracts of these companies with Panhandle for unlimited gas supplies be canceled, either voluntarily or by Federal Power Commission action, and that new contracts be substituted to provide for limited supplies. The companies are protesting but feel that foresight and good business judgment compel recognition of the fact that the Federal commission's action could result in a shortage of supply. They believe that it is in the public interest for them to anticipate adverse results of this kind and to make such provision therefor as the circumstances indicate to be appropriate.

In recognition of the paramount claim of those desiring gas for domestic purposes and the natural priority of existing customers over those who may seek service in the future and a desire not to deny service unnecessarily to those in the non-domestic fields whose demands are small

and will not materially affect the over-all problem, the companies proposed to maintain general firm service to all except those new customers desiring gas for nondomestic uses and whose requirements will exceed 300 cubic feet per hour.

It was explained that the limitation of the restricted service would fix the breaking point between firm and interruptible service at a level where provision for alternative fuel would not work as undue a hardship on the customer as it might below that level. Furthermore, the proposal would not completely deprive any person of gas service regardless of end use or volume.

The commission said that it is a matter of common knowledge and acceptance that the interest of the domestic or residential consumer is paramount in terms of uninterrupted service and that in times of over-all short supply, the so-called commercial and industrial consumers must yield to that paramount interest. As between the presently attached consumers and future consumers of similar character in terms of end use and volume who would be affected by the proposed limitation, the commission believed that it could well borrow from the chancellor the time-tested maxim of equity and good conscience that between equal equities the first in order of time shall prevail.

The commission did not believe that the proposed limitation resulted in any unreasonable discrimination or undue preference.

It pointed out that the danger



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sought to be avoided was the bleeding of a fixed supply of gas by a few large consumers for nondomestic purposes at the

expense and probable hazard of the general public. *Re Citizens Gas Co. et al.* (Case Nos. 11,949, 11,961, 11,976).



### Original Cost Does Not Control Rate Base

THE Pennsylvania commission lifted its suspension of increased telephone rates upon finding that a return of 6.1 per cent, based on an estimated original cost measure of value, would be produced.

However, the commission had indicated that an allowable return would be 6 per cent. It said:

Original cost of utility plant is not the controlling valuation factor in determining fair value. Reproduction cost, at fair average prices, is also of

much importance, and it is fair value upon which a fair return must be allowed.

There are no recent reproduction cost estimates available. However, in view of the upward trend in construction costs in recent years, it is evident that such estimates, if available, would exceed the original cost figures used herein.

*Public Utility Commission v. Vandergrift Teleph. Co. (Complaint Docket No. 15079).*



### Substitution of Natural Gas for Manufactured Gas Authorized

THE New York commission authorized a gas company to substitute natural gas having a heating value of 1,000 BTU per thousand cubic feet for manufactured gas having a heating value of 537 BTU. The commission has repeatedly urged all gas companies under its jurisdiction to take all possible steps to obtain natural gas. It has continually appeared in proceedings before the Federal Power Commission in an endeavor to obtain an allotment of natural gas.

The substitution of natural gas was held to be in the public interest. The

commission said that this action not only introduces a presently cheaper fuel than manufactured gas but also tends to insure against the inflationary effects of the cost of additional construction of needed manufacturing plants as well as increases in the price of coal and oil.

The cost of converting customers' appliances was held to be an operating expense to be borne by the company. The commission authorized the company to amortize this cost over a period of five years. *Re Niagara Mohawk Power Corp. (Case 15058).*



### State Boundary Disregarded and Group Classification Followed in Fixing Telephone Rates

THE Connecticut commission ruled that the New York Telephone Company (supplying service in the state of New York exclusively, except for its Connecticut division, which comprises two exchanges) had failed to present a sufficiently trustworthy separation of revenues, expenses, and investment in the Connecticut division on which to base rates in that division. In order to grant

rate relief, however, it resorted to "secondary evidence" instead of dismissing an application for a rate increase for failure of proof.

Local service rates in New York state, outside of New York city and Buffalo, have been for many years on a group basis. Exchanges are divided into groups according to the number of telephone stations which may be called without toll



## PROGRESS OF REGULATION

charge, and a uniform schedule of rates applies in all exchanges within a group. The commission decided that rates for the exchanges in Connecticut fell into a proper place in the New York state rate scheme and approved rates comparable to those for a similar exchange in New York.

The company had not asked the commission to fix compensatory rates for its Connecticut division. On the contrary, it claimed that proposed rates, although materially higher than those in force in a similar rate group in New York, would be far from compensatory but that the proposed level of rates represented all that the traffic would bear.

The commission said that ordinarily the upper limit of a rate, that it shall not exceed the value of the service to the customer, is not of importance as a matter of law because the traditional approach to the rate problem (a fair return on fair value) generally results in the proposed rate being both compensatory and sufficiently low to meet the cost of any competitive commodity or service available to the customer. Hence, the resulting rate is ordinarily one that the traffic will bear. While this upper limit is thus essentially determined by economic principles, it has a status in regulatory law as representing the legal maximum that a utility company may exact of a customer.

Determination of reasonable rates by resort to secondary evidence, said the commission, necessarily requires consideration of the Connecticut division as

a part of the corporate entity of the New York Telephone Company. It requires consideration of the company's historic policy of pricing services by rate groups, which policy becomes, under the circumstances of this case, the most reliable measure of reasonable rates in granting rate relief for the company's Connecticut division.

It was said to be axiomatic that customers may be grouped together for the purpose of fixing rates where the conditions under which they are served are substantially similar with respect to the customers in the classification. Grouping of exchanges by the number of connected telephones in the exchange is merely classification of customers in the telephone industry for the purpose of fixing uniform rates within each group.

Regarding comparability as an issue in the case for the purpose of argument, the commission continued, the group classification establishes the area of comparability, and inasmuch as the two exchanges comprising the Connecticut division would fall into a certain rate group of the company as applied in New York state, the rates applicable to that rate group recently fixed on a compensatory level in that state should be adopted as a measure of reasonable rates in affording the company needed rate relief.

The commission approved an increase in the minimum rate from 5 cents to 10 cents for public and semipublic telephone service. *Re New York Teleph. Co. (Docket No. 8409).*



## State License for Power Project Denied Where Federal Project Deemed Preferable

THE Federal Power Act contains, in § 7(b), a provision that whenever, in the judgment of the Federal Power Commission, the development of any water resources for public purposes should be taken by the United States itself, the commission shall not approve any application for any project affecting such development, but shall investigate

the matter and submit its findings to Congress with recommendations. The commission has acted under that provision of law and recommended to Congress that the water resources of the St. Lawrence river be developed by the United States.

This action resulted from an application by the Power Authority of the State

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of New York for a license for a power project to be located along the International Rapids Section of the St. Lawrence river. The commission denied the application stating:

The principal question which we feel called upon to decide initially is whether in our judgment development of the water resources of the St. Lawrence river should be undertaken by the United States itself. This conclusion was also reached by the hearing examiner. We believe this question should be answered in the affirmative, and it is not necessary at this time for us to consider in detail collateral questions.

Commissioner Smith, in a dissenting opinion, said that the only question was whether the commission should permit this power development to be undertaken as an initial step by the state of New

York, which has demonstrated both the desire and ability to proceed. The New York Power Authority had agreed to conditions which would protect the rights of adjacent states. He said that from the majority opinion it appeared that the reason for failure to license this development was based principally upon the conviction that both a seaway and the power development were vitally important to the economy and defense of the United States and Canada and should be constructed simultaneously. He said:

It is difficult to follow this reasoning. Obviously, the ultimate determination as to whether and if so when, navigation facilities are to be provided will be made, not by us, but by higher authority.

*Re Power Authority of the State of New York (Opinion No. 203, Project No. 2000).*



### Telephone Company's Classified Directory Is Not Subject to Regulation

THE Dade County (Florida) Circuit Court quashed a proceeding to compel a telephone company to accept directory advertising from an advertising agency with whom it had never done business and reaffirmed the company's right to do business with whomever it chooses in so far as its directory is concerned. The court conceded that in the conduct of its principal function—namely, the transmission of communications by wire—the company enjoys a practical monopoly and is clearly subject to regulation. Its classified directory, however, is not a monopoly since many other advertising media are available, such as newspapers, magazines, radio, and television.

Any obligation which the company might owe to any person in respect to its classified directory is necessarily the subject of private contract, not public regulation, the court ruled, adding the following comment:

Because the respondent has chosen to increase its revenue by the side line of offering advertising space in a special section of, or appendix to, its alphabetical directory, it does not follow as a matter of law that such side-line activity becomes a part of its public service and subject to the same, or for that matter, any public regulation.

*Florida ex rel. Montemarano v. Southern Bell Teleph. & Teleg. Co.*



### Full Depreciation Reserve Deducted in Fixing Rate Base

THE Georgia commission ordered a reduction in electric rates after a reduction in the price of fuel oil used to generate power. The rate paid by the

electric company to its parent for power had also been reduced pursuant to an order of the Federal Power Commission.

The commission has generally adopt-

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ed prudent investment, less the accrued depreciation reserve, as a proper rate base. In the evidence submitted by the company, prudent investment was used, but the company deducted only that part of the depreciation reserve which represented past charges to operating expenses. The company in the past had made transfers to the depreciation reserve in order to eliminate the inadequacy of the reserve as found by independent engineers. The inadequacy was due to insufficient depreciation expense charges and resulting shortages in the reserve.

The commission said that present customers should not be penalized for the action of the company many years ago in failing to set aside a sufficient amount for depreciation expense purposes. The commission deemed it proper to deduct the full depreciation reserve in the determination of a fair rate base.

The commission pointed out that, as a matter of fact, the reserve was only some 15 per cent of depreciable property. It did not deem this amount excessive. *Re Georgia Power & Light Co. (File No. 19313, Docket No. 8-U).*



### Petition by Bus Riders Dismissed for Failure to Meet Commission Requirements

LAST year the Indiana commission permitted a suburban bus company to suspend operations on some routes. The commission has now dismissed a petition filed with the commission and bearing the purported signatures of 165 residents of the community affected. The petition requested a rehearing.

The commission ruled that the petition was defective in numerous ways. The commission's rules require that all written complaints and documents be addressed to the commission. This petition was not addressed to anyone.

Petitions or pleadings must contain a correct heading. This petition requesting a rehearing did not contain the correct heading identifying the proceeding.

The regulations require that all pleadings must be verified, typewritten, and filed in duplicate. This petition was not verified and it was not filed in duplicate with the commission.

The rules state that a petition must set forth all facts upon which the request for relief is based, the occurrences which may be essential, together with a citation

of the statutes and rules and regulations of the commission upon which the petition is based. This petition set forth two facts as a request for rehearing, failed to state any dates, and also failed to set out a citation of statute, rules, or regulations.

All pleadings must show timely service upon all parties to the proceeding and must show proof of service to the commission, although service is deemed valid when service is made upon an attorney who appeared at the proceeding. This petition showed no proof of service upon the company or upon the attorney who appeared for the company when the order in dispute was approved.

The rules of the commission state that in the event a petition or application is filed for further hearing or for reopening to take further evidence, the nature and purpose of the evidence must be briefly stated. This petition in no way complied with this section of the rules and regulations; and there were no specifications of any errors committed by the commission, if any there might have been. *Re Suburban Lines Inc. (No. 1606-A, 7).*



### Mergers and Transfers of Massachusetts Gas And Electric Properties Approved

THE public interest, according to the Massachusetts Department of Public Utilities, will be served by the mer-

ger of various electric companies into Worcester County Electric Company and the separation of gas properties

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from electric properties, to be effected by the transfers of gas properties to companies involved in the transaction. Corporate readjustments incident to these transactions were held to be fair to stockholders and consistent with the public interest.

Considerable testimony was received as to the advantages to be derived from the electric merger. It was testified that savings would result in more efficient utilization of plant and property and employees' services throughout the territory, the elimination of intercorporate transactions, the reduction in number of reports, and in other management and accounting costs, economies incident to large volume purchases of materials and supplies, and the increased ability of one large corporate unit to finance the capital needs of the present rapidly expanding business.

Separation of the gas properties from the electric properties should facilitate

compliance with the requirements of the Securities and Exchange Commission under the Holding Company Act. Most of the capital stock of the companies to be merged has been owned by the New England Electric System. This holding company also owns most of the stock of the other companies.

Worcester County Electric Company is to file new rate schedules which will provide a substantial reduction in rates. Electric customers should also benefit by generally improved service through closer coordination of facilities as well as from reduced rates. The commission was not entirely satisfied with the proposed zone boundaries as between various areas but did not consider it in the public interest to require the company to establish more equitable limits at the present time, since such an order would delay the application of the proposed reductions. *Re Athol Gas & Electric Co. et al. (DPU 9257).*



### Cheap Steam Heat Ended by Advances in Power Generation

THE North Dakota commission concluded an investigation of steam-heating rates of an electric utility when the evidence indicated that existing rates were neither excessive nor unreasonable.

The commission pointed out that in the past, when the prime movers for electric generation were reciprocating steam engines, exhaust steam—merely a by-product—was used for heating. This was sold at rates generally having little or no relationship to the cost of producing the steam. Progress in the field has changed the situation, the commission continued, so that with the replacement of the steam engine by the more efficient steam turbine, steam as a by-product exists no more.

The plant in question, the commission observed, was no longer used to gen-

erate electricity but was used solely in the production of steam for heating purposes. Consequently, steam-heat consumers should bear the full cost of operation. Figures on operating revenues and expenses produced at the hearing indicated that the service for 1949 had been rendered at a loss of about \$15,000. From this the commission concluded that existing rates were not excessive.

Contentions of complaining consumers that the revenue figures should have included the profits from a warehouse which the company owned near its boiler plant and that some of its labor costs should have been charged to electric operation were described by the commission as "devoid of merit." *Re Montana-Dakota Utilities Co. (Case No. 4672).*



### City Lacks Power to Act As Common Carrier

AN application by the city of Bradford, Pennsylvania, for authority to transport, as a common carrier, persons on schedule between the city and an air-

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port was dismissed by the state commission. It was decided that the city does not have the right or power to transport as a common carrier for hire.

In passing on applications or complaints as to duties, liabilities, powers, and limitations of powers of a public service company or municipal corporation, it was said, inquiry must be made by the commission as to the rights or powers of the company or city to do or not to do the

thing applied for or complained about.

The city of Bradford is a third-class city. There is no inherent right or power in such a city to operate motor vehicles for the transportation of the public under the statute. Any reasonable doubt as to the existence of the power, the commission continued, is resolved by the courts against its existence; no statutory grant of such right exists. *Re City of Bradford* (Application Docket No. 76181).

### Nails Are Goods within Meaning of Permit

THE question arose in a proceeding before the Pennsylvania commission whether a motor carrier had illegally transported "goods" when it transported kegs of nails. Its certificate of convenience and necessity authorized certain kinds of property transport and authorized the transportation of goods within a designated area. The commission held that the word "goods" as used in the certificate was synonymous with the word "property."

A review of the law, said the commission, led to the conclusion that in general the term "goods" means any form whatsoever of movable, tangible, personal property. In some instances, the meaning of the word has been extended to cover intangible personal property, as in the construction of the Fair Labor Stand-

ards Act of 1938, wherein insurance policies and the transmission of telegrams were held to be goods. Likewise, in tax statutes, the words "goods, wares, and merchandise" have been held to include intangible personal property.

In other instances, the word has been restricted under particular circumstances where strict construction was required, as in the case of interpretations of the Bulk Sales Act laws, prohibitions against sales on Sunday, and provisions of insurance policies.

There did not appear, however, to be any reason why a departure from the general meaning of the term "goods" should be made in the construction of the certificate. *Lancaster Transp. Co. v. W. J. Dillner Transfer Co.* (Complaint Docket No. 15013).

### Service Discontinuance Refused Despite Low Revenues

A RAILROAD was authorized by the New Jersey Board of Public Utility Commissioners to discontinue a train service not listed in its timetables and carrying no passengers when no objection was made to discontinuance at a public hearing at which several proposed service revisions were considered.

But the railroad was not permitted to discontinue a passenger train operating at an out-of-pocket loss even though over-all operations on the line had been conducted at an average annual loss of about one-quarter of a million dollars from 1945 through 1949.

The board ruled that public convenience and necessity is the primary consideration in such matters, and that the mere failure of a railroad to earn a proper return on a line which is part of its system is not sufficient ground for discontinuance of service.

Widespread public opposition to the proposed discontinuance, coupled with the absence of evidence demonstrating that after discontinuance the remaining service would be safe, adequate, and proper, was the reason for denial of authority to discontinue. *Re New Jersey & N. Y. R. Co.* (Docket No. 5143).



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### Other Important Rulings

**T**HE supreme court of Ohio held that a municipality which has been operating a sewage system for many years without charge may pass an ordinance providing for charges for the use of such system to pay for cost, maintenance, repair, and for payment of debt charges and bonds to be issued for extensions and improvements, without being subject to referendum, and that such emergency ordinance is not subject to review by the courts. *State ex rel. City of Fostoria v. King et al.* 94 NE2d 697.

The Washington commission held that a warehouse utility which capitalizes rent should not be permitted to include such rent as an operating expense, as the warehouse customer, by paying the rent included in the operating expense, would be supplying property used in operation and in addition would be required to pay the company a fair rate of return upon property which the company did not in any sense supply. *Re Revision of Rules and Regulations of Rates and Charges of Storage Warehousemen (Cause No. T-8528)*.

The United States District Court, in

holding that a furniture manufacturer and a distilling corporation were private carriers, approved the primary business test method by which the Interstate Commerce Commission determined the status of private carriers as opposed to contract carriers or common carriers, and which test holds that if it is established that the primary business of a concern is the manufacture or sale of goods which the owner transports in furtherance of that business and the transportation is merely incidental, the carriage of such goods from the factory or other place of business to the customer is private carriage, even though a charge for transportation is included in the selling price or is added as a separate item. *Brooks Transp. Co. Inc. et al. v. United States et al.* 93 F Supp 517.

The United States Court of Claims held that a powder used in the manufacture of a mixture for flame throwers and incendiary bombs was properly classified as a soap powder rather than a chemical, not otherwise indexed by name, for freight rate purposes. *Union P. R. Co. v. United States*, 93 F Supp 617.

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*Public Utilities Reports (New Series)* are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."



FEDERAL COMMUNICATIONS COMMISSION

Harry Katz et al.

v.

American Telephone & Telegraph  
Company et al.

Docket No. 9500  
November 1, 1950

COMPLAINT by telephone subscribers against tariff provision  
for discontinuance of service used for unlawful purposes;  
dismissed.

*Service, § 2 — Constitutional rights — Telephone service.*

1. The public has no unqualified vested property right to receive telephone service which may be protected under the Fifth and Fourteenth Amendments to the Constitution, p. 74.

*Service, § 162 — Rights of public — Communications Act — Company regulation.*

2. Any right which the public may be accorded to telephone service by the Communications Act may be limited by just and reasonable company regulations, p. 74.

*Service, § 2 — Constitutional rights — Due process — Discontinuance of telephone service.*

3. A party who is refused service, or whose service is terminated by a telephone company because of alleged unlawful use, is not thereby deprived of property without due process of law, since such person always has recourse to the courts, p. 75.

*Service, § 2 — Constitutional rights — Due process — Regulations — Telephone discontinuance for unlawful use.*

4. A telephone regulation which provides that "service is furnished subject to the condition that it will not be used for unlawful purposes, and that service will not be furnished when any law enforcement agency acting within its jurisdiction advises that such service is being used or will be used in violation of law or when other evidence is received that such service is being or will be so used" does not deprive subscribers of the right to telephone service without due process of law under the Fifth and Fourteenth Amendments to the Constitution unless the action of the utility in cutting off the service also operates to leave the subscriber without recourse in event that said service was terminated without unjustifiable cause, p. 75.

*Constitutional law, § 20 — Due process — Requirement of hearing.*

5. Due process does not always require that a hearing be afforded before discretion is exercised, since the requirements of due process are satisfied

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as long as there is an opportunity for a hearing and a judicial determination at some stage in the proceeding, p. 75.

### *Service, § 134 — Refusal to serve because of unlawful use — Telephones.*

6. A telephone company may refuse and cannot be compelled to furnish service which will be used, or which it has reasonable cause to believe will be used, in furtherance of illegal enterprises, p. 77.

### *Service, § 134 — Denial of telephone service — Unlawful use — Meaning of "probable cause."*

7. A letter from a law enforcement officer requesting a telephone company to discontinue service because he has information that such service is being used for unlawful purposes provides the telephone company with probable cause for discontinuance or refusal of service without further investigation on its part, since the company is not a law enforcement agency and should not be required to assume the function of law enforcement, p. 77.

### *Service, § 134 — Denial for unlawful use — Telephones — Validity of regulation.*

8. A telephone regulation which provides that "service is furnished subject to the condition that it will not be used for unlawful purposes and that service will not be furnished when any law enforcement agency acting within its jurisdiction advises the company that such service is being used or will be used in violation of law or when other evidence is received that such service is being or will be so used" does not violate the due process clause of the Federal Constitution, is just, reasonable, and lawful, p. 79.

### *Constitutional law, § 15 — Due process clause — Effect on telephone regulations.*

Statement that the Fifth and Fourteenth Amendments to the Constitution of the United States, which prohibit the deprivation of property without due process of law, apply to tariff regulations of a telephone company, since such regulations, upon approval by the Commission, are no longer the rules of a private corporation but have the same force and effect as regulations of the Commission itself, p. 73.

APPEARANCES: John L. Ingoldsby, Jr., on behalf of Harry Katz and Bertha B. Katz, complainants; S. Whitney Landon and Ernest D. North, on behalf of American Telephone and Telegraph Company; John T. Quisenberry, J. N. Bradley, and Sam Houston, on behalf of The Chesapeake and Potomac Telephone Company; and William G. Butts and William M. Leshner, on behalf of the Common Carrier Bureau of the Federal Communications Commission.

By the COMMISSION, Litvin, Examiner:

### *Initial Decision*

#### *Preliminary Statement*

1. This proceeding arises out of the complaint filed November 10, 1949, with the Federal Communications Commission (hereinafter referred to as "Commission") by Harry Katz and Bertha B. Katz (subscribers of The Chesapeake and Potomac Telephone Company) directed against the American Telephone and Telegraph Com-

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pany (hereinafter referred to as "AT&T") Tariff FCC No. 132, 2nd Revised Page 10A, Section B, Paragraph 10, and The Chesapeake and Potomac Telephone Company (hereinafter referred to as "C&P") Tariff FCC No. 3, 1st Revised Page 11B, Section B, Paragraph 16, which schedules relate to the use of telephone services for unlawful purposes.<sup>1</sup> The complaint challenges these tariffs as "unjust and unreasonable" and charges that they "constitute a denial of free speech"; "constitute a denial of complainants' rights without due process of law"; and that they "are contrary to the public interest, in direct contravention of the Constitution of the United States and of Title 47, §§ 201 and 202 of the United States Code." Complainants pray that the AT&T Tariff FCC No. 132, Second Revised Page 10A, and C&P Tariff FCC No. 3, First Revised Page 11B, be amended so as to require adequate notice and hearing "as required by due process of law," or in the alternative, that the tariffs be declared unlawful, unconstitutional, and void.

2. Pursuant to § 208 of the Communications Act of 1934, 47 USCA § 208, as amended, and § 1.577 of the Commission's Rules and Regulations, notice was given to the defendants of the filing of said complaint. A copy of the complaint was annexed to the notice, and each defendant was re-

quired thereby to satisfy the complaint or answer the same in writing not later than December 19, 1949.

3. On December 19, 1949, the defendants, AT&T and C&P, filed their answer to the complaint in writing. They deny that the tariff regulations are unjust or unreasonable; that they constitute a denial of free speech, a denial of complainants' rights without due process of law; or that they are contrary to the public interest or in direct contravention of the Constitution of the United States and of Title 47, §§ 201 and 202 of the United States Code, as alleged in paragraph 8 of the complaint; and they ask that the complaint be dismissed.

4. On January 10, 1950, the Commission wrote all parties to this proceeding advising that upon consideration of the complaint and answer, it appeared appropriate that the question presented thereby be considered at a conference, and suggested a date for such conference. By agreement of all parties, the conference was held on February 2, 1950, in the offices of the Commission. As a consequence thereof, a stipulation was entered into between the parties, agreeing that the allegations contained in paragraphs IV and VI of the answer are true<sup>2</sup>; that the only issue in this proceeding requiring decision by the Commission is that presented by the allegations in paragraph 8 of the complaint to the

<sup>1</sup> Tariffs of both AT&T and C&P are identical and read as follows: "Use of Service for Unlawful Purposes. The service is furnished subject to the condition that it will not be used for an unlawful purpose. Service will not be furnished if any law enforcement agency, acting within its jurisdiction, advises that such service is being used or will be used in violation of law, or if the telephone company receives other evidence that such service is being or will be so used."

AT&T Tariff No. 132, 2nd Revised Page 10A, Section B, Paragraph 10, was filed with the Commission March 11, 1949, and became effective April 12, 1949; and C&P Tariff No. 3, 1st Revised Page 11B, Section B, was filed with the Commission March 18, 1949, and became effective April 18, 1949.

<sup>2</sup> The agreed facts as contained in paragraphs IV and VI of the defendants' answer are set forth in paragraphs 8 to 10, inclusive, hereof.

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effect that the "tariffs complained of herein are unjust and unreasonable, constitute a denial of free speech, constitute a denial of complainants' rights without due process of law, and are contrary to the public interest, in direct contravention of the Constitution of the United States and of Title 47, §§ 201 and 202, United States Code," and denial thereof by paragraph VIII of the answer; that the issues thus presented may be submitted to the Commission for an Initial Decision upon complaint, answer, stipulation, and briefs of the parties without taking evidence and without designation for hearing; that the briefs of the defendants, AT&T and C&P, shall be filed with the Commission within thirty days after the filing of complainants' brief, and no time shall be allowed for a rebuttal brief to be filed by complainants.

5. On March 9, 1950, a further stipulation was entered into between the parties herein. It was agreed that the time for the filing of the brief of defendants, AT&T and C&P, within thirty days after the filing with the Commission of the complainants' brief would be extended for an additional fourteen days, which would be March 27, 1950.

6. On February 10, 1950, complainants' brief was filed. Thereafter and on March 27, 1950, defendants' brief was filed, and on April 7, 1950, complainants filed a reply brief.

7. On July 21, 1950, the Commission, by order directed that the pro-

ceeding herein be referred to the undersigned hearing examiner, who, "on the basis of the above complaint, answer, stipulation and briefs shall prepare an Initial Decision herein in accordance with § 1.851 of the Commission's Rules and Regulations." It further ordered that the Chief of the Common Carrier Bureau "may file a brief herein on or before thirty days from the date hereof; and that reply briefs with respect thereto may be filed by the parties herein on or before thirty days from the date of service upon them of the brief of the Chief of the Common Carrier Bureau." On August 17, 1950, the Chief of the Common Carrier Bureau filed its brief. No further briefs were filed by anyone.

### *Agreed Statement of Facts*

8. On or about the first day of April, 1949, complainants received the following notification from The Chesapeake and Potomac Telephone Company:<sup>3</sup>

"March 30, 1949

"Dear Mr. Katz:

"We have been advised by the United States Attorney for the District of Columbia that his office is in possession of competent evidence that the following telephone, Adams 7738, furnished you at 3169 Walbridge Place, N. W., Washington, D. C., is being used in violation of the statutes prohibiting gambling in the District of Columbia, and he has requested our company to disconnect this telephone

<sup>3</sup> The AT&T does not itself furnish facilities on the subscriber's premises for message toll telephone service, and has no occasion to take action under this tariff regulation. The Associated Telephone Companies of the Bell system, of which the defendant, C&P, is one,

furnish facilities on the subscriber's premises for exchange telephone service and for message toll telephone service, both intrastate and interstate, and concur in Tariff FCC No. 132 of the AT&T involved herein.

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equipment and discontinue such telephone service.

"In compliance with this request, you are hereby notified that the above-mentioned telephone will be disconnected and such telephone service discontinued at 11 A.M. on Wednesday, April 6, 1949.

"Very truly yours,  
(signed) C. B. Schultz,  
Manager."

9. No action has been taken by the defendant, C&P, in discontinuing complainants' telephone service pursuant to the foregoing notification, because a suit for injunction was instituted by complainants in the United States district court for the District of Columbia (Civil Action No. 1506-49) to restrain the defendant, C&P, and the United States Attorney from taking any action with respect to the discontinuance of complainants' telephone service; and under date of November 8, 1949, and during the pendency of said injunction suit, the United States Attorney, by letter to the defendant, C&P, withdrew his request for discontinuance of complainants' telephone service. Following receipt by defendant, C&P, of said letter from the United States Attorney, defendant, C&P, notified complainants of the withdrawal of the request of the United States Attorney for discontinuance of complainants' telephone service, and on December 2, 1949, said injunction suit was dismissed at complainants' instance, with consent of all parties.

10. The tariff regulations of the C&P and AT&T which are here in question<sup>4</sup> were filed in response to a

request made by this Commission in a letter to defendant, AT&T, dated January 6, 1949, a copy of which is as follows:

"FEDERAL COMMUNICATIONS  
COMMISSION  
Washington 25, D. C.  
January 6, 1949

In reply refer  
to 8045

"American Telephone and  
Telegraph Company  
195 Broadway  
New York 7, N. Y.

"Attention: Mr. J. B. Rees  
Assistant Chief Engineer

"Gentlemen:

"It is the Commission's understanding that with respect to interstate and foreign communication service the Bell system companies as a matter of policy, have instructed their personnel not to furnish such service to persons using the same for unlawful purposes. It is requested that the Bell system companies file, in accordance with § 203 of the Communications Act, appropriate tariff regulations with this Commission which will reflect the policies and practices of those companies concerning this matter in so far as interstate and foreign communication service is involved.

"In this connection, you are undoubtedly aware of the decision of December 1, 1948, by the United States court of appeals for the ninth circuit in which it was held that on the basis of regulations contained in Western Union Tariff F.C.C. No. 219 (a copy of which is attached)<sup>5</sup>, Western Union was within its rights in

der this tariff shall not be used for any purpose or in any manner directly or indirectly in violation of any Federal law or the laws of any

<sup>4</sup> See footnote 1.

<sup>5</sup> Copy of regulation from Western Union Tariff FCC No. 219. "Facilities furnished un-



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refusing to restore to Continental Press Service the leased line service which Western Union had discontinued upon receiving notice from law enforcement officials of the state of California that the service was being used in violation of law. *McBride, d/b/a Continental Press Service v. Western U. Teleg. Co. No. 11969 (77 PUR NS 65).*

### "BY DIRECTION OF THE COMMISSION

(Sgd.) T. J. Slowie  
T. J. SLOWIE"

#### *Statutes Applicable*

11. a. *Section 201 of the Communications Act of 1934, as amended (47 USCA § 201)*, provides that "It shall be the duty of every common carrier engaged in interstate or foreign communication by wire or radio to furnish such communication service upon reasonable request therefor"; that (b) "All charges, practices, classifications and regulations for and in connection with such communication service, shall be just and reasonable, and any such charge, practice, classification, or regulation that is unjust or unreasonable is hereby declared to be unlawful: . . ."

b. *Section 202 of the act* provides that "It shall be unlawful for any common carrier to make any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities, or services, for or in connection with like communication service, directly or indirectly, by any means or device, or to make or give any undue or unreasonable preference or advan-

tage to any particular person, class of persons, or locality, or to subject any particular person, class of persons, or locality to any undue or unreasonable prejudice or disadvantage." It further provides that (c) "Any carrier who knowingly violates the provisions of this section shall forfeit to the United States the sum of \$500 for each such offense, and \$25 for each and every day of the continuance of such offense."

c. *Section 203 of the act* requires that every common carrier file with the Commission and print and keep open for public inspection, schedules of charges, classifications, practices, and regulations affecting such charges for itself and its connecting carriers, and that it shall make no change in the same except after notice to the Commission and the public. The Commission may reject and refuse to file any schedule entered for filing which does not provide and give lawful notice of its effective date. It further provides that the Commission (b) "in its discretion and for good cause shown" may modify the requirements of any tariff schedule, and that (e) "In case of failure or refusal on the part of any carrier to comply with the provisions of this section or of any regulation or order made by the Commission thereunder, such carrier shall forfeit to the United States the sum of \$500 for each such offense, and \$25 for each and every day of the continuance of such offense."

d. *Section 204 of the act* empowers the Commission, either on its own initiative without complaint, or upon

of the states through which the circuits pass or the equipment is located, and the telegraph company reserves the right to discontinue the service to any drop or connection or to all

drops and connections when it receives notice from Federal or state law enforcing agencies that the service is being supplied contrary to law."



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complaint, upon reasonable notice, to enter upon a hearing concerning the lawfulness of any charge, classification, regulation, or practice.

e. *Section 205 of the act* provides that whenever, after full opportunity for hearing, upon a complaint or under an order for investigation and hearing made by the Commission on its own initiative, the Commission shall be of the opinion that any charge, classification, regulation, or practice of any carrier is or will be in violation of any of the provisions of the act, the Commission is authorized and empowered to determine and prescribe what will be the just and reasonable charge or charges and what classification, regulation, or practice is or will be just, fair, and reasonable, to be thereafter followed, and to make an order that the carrier or carriers shall cease and desist from such violation to the extent that the Commission finds the same does or will exist, and provides further that any carrier, officer, representative, agent, etc., who knowingly fails or neglects to obey any such order shall forfeit to the United States the sum of \$1,000 for every such offense.

f. *Section 206 of the act* holds the carrier liable for damages to the person or persons injured thereby, in case it shall "do, or cause or permit to be done, any act, matter, or thing in this act prohibited or declared to be unlawful, or shall omit to do any act, matter, or thing in this act required to be done," together with a reasonable counsel or attorney's fee to be fixed by the court, in every case of recovery, which attorney's fee shall be taxed and collected as part of the costs in the case.

g. *Section 207 of the act* provides in the alternative for the filing of a complaint with the Commission as set forth in § 208 of the act or for the bringing of a suit for recovery of damages, for which a common carrier may be liable under the provisions of the act, by any person claimed to be damaged by any common carrier subject to the provisions of the act.

h. *Section 208 of the act* provides that "Any person, . . . complaining of anything done or omitted to be done by any common carrier subject to this act, in contravention of the provisions thereof, may apply to said Commission by petition which shall briefly state the facts, whereupon a statement of the complaint thus made shall be forwarded by the Commission to such common carrier, who shall be called upon to satisfy the complaint or to answer the same in writing within a reasonable time to be specified by the Commission." That section further provides that "If such common carrier within the time specified shall make reparation for the injury alleged to have been caused, the common carrier shall be relieved of liability to the complainant only for the particular violation of law thus complained of. If such carrier . . . shall not satisfy the complaint within the time specified or there shall appear to be any reasonable ground for investigating said complaint, it shall be the duty of the Commission to investigate the matters complained of in such manner and by such means as it shall deem proper. No complaint shall at any time be dismissed because of the absence of direct damage to the complainant."

i. *Section 209 of the act* provides that "If, after hearing on a complaint,

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the Commission shall determine that any party complainant is entitled to an award of damages under the provisions of this chapter, the Commission shall make an order directing the carrier to pay to the complainant the sum to which he is entitled on or before a day named."

j. *Section 401 of the act* provides that "(a) The district courts of the United States shall have jurisdiction, upon application of the Attorney General of the United States at the request of the Commission, alleging a failure to comply with or a violation of any of the provisions of this act by any person, to issue a writ or writs of mandamus commanding such person to comply with the provisions of this act." Subsection (b) provides for the enforcement of any order of the Commission (other than for the payment of money) by the appropriate district court of the United States upon application of the Commission, any party injured thereby, or the United States by its Attorney General. Under subsection (d) of § 401 the provisions of the Expediting Act (§ 238(1) of the Judicial Code, as amended) is made applicable to any suit in equity arising under Title II of this act, wherein the United States is complainant.

k. *Section 402(a) of the act* provides that "The provisions of Title 28, relating to the enforcing or setting aside of the orders of the Interstate Commerce Commission, are made applicable to suits to enforce, enjoin, set aside, annul, or suspend any order of the Commission under this chapter . . . , and such suits are authorized to be brought as provided in such Title 28."

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l. *Section 406 of the act* provides that "The district courts of the United States shall have jurisdiction upon the relation of any person alleging any violation, by a carrier subject to this act, of any of the provisions of this act which prevent the relator from receiving service in interstate or foreign communication by wire or radio, or in interstate or foreign transmission of energy by radio, from said carrier at the same charges, or upon terms or conditions as favorable as those given by said carrier for like communication or transmission under similar conditions to any other person, to issue a writ or writs of mandamus against said carrier commanding such carrier to furnish facilities for such communication or transmission to the party applying for the writ: *Provided*, That if any question of fact as to the proper compensation to the carrier for the service to be enforced by the writ is raised by the pleadings, the writ of peremptory mandamus may issue, notwithstanding such question of fact is undetermined, upon such terms as to security, payment of money into the court, or otherwise, as the court may think proper pending the determination of the question of fact: *Provided further*, That the remedy hereby given by writ of mandamus shall be cumulative and shall not be held to exclude or interfere with other remedies provided by this act."

m. *Section 414 of the act* provides that "Nothing in this act contained shall in any way abridge or alter the remedies now existing at common law or by statute, but the provisions of this act are in addition to such remedies."

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### *Conclusions*

1. The tariff regulations in question provide that telephone service is furnished "subject to the condition that it will not be used for an unlawful purpose," and further that "service will not be furnished if any law enforcement agency, acting within its jurisdiction, finds that such service is being used or will be used in violation of law, or if the telephone company receives other evidence that such service is being or will be so used." The complaint and answer thereto raise the following issues: (1) In so far as the tariff regulations permit the telephone company to discontinue service to a subscriber, without prior notice and the opportunity to be heard, do they in effect deprive the subscriber of a property right without due process of law in violation of the Fifth and Fourteenth Amendments to the Constitution of the United States<sup>1</sup>; and (2) are the tariff regulations of the defendant carrier just and reasonable as required by § 201(b) of the Communications Act of 1934, as amended?

2. It is appropriate to examine the constitutional issue first, since if that question be answered affirmatively, regardless of other considerations, these tariff regulations cannot be found to be just, reasonable, and lawful.

a. Defendant carriers assert that the Fifth and Fourteenth Amendments to the Constitution of the United States have no application to this case because these amendments are designed to protect individuals against arbitrary action by the Federal or state government; whereas the action here-

in complained of is that of a private corporation. Complainants, on the other hand, contend that the regulations in question have the same force and effect as the Rules of the Commission, which is a government agency, and therefore the Fifth and Fourteenth Amendments have application to them. The tariff regulations in question were filed pursuant to the mandate of § 203 of the Communications Act of 1934, as amended, under which these carriers were required to file schedules of tariffs and regulations. Under the Communications Act, carriers may make no change in any published tariff schedule except after notice to the Commission and to the public. The Commission, in its discretion, and for good cause shown, may modify the requirements made in particular instances or by a general order applicable to such circumstances or conditions. Carriers may not engage or participate in providing communication service unless schedules are filed and published in accordance with the act and regulations made thereunder. The Commission has authority to reject or refuse to file any schedule entered for filing which does not provide and give lawful notice of its effective date. Any such schedule so rejected by the Commission is void. For failure or refusal of a carrier to comply with provisions of the act or of any regulation or order made by the Commission, the carrier is liable to a substantial money forfeit. The tariff regulations in question filed by defendant carriers with the Commission, pursuant to § 203 of the Com-

<sup>1</sup> The Fifth Amendment provides that "No person shall . . . be deprived of . . . property without due process of law." The

Fourteenth Amendment provides that "No state shall . . . deprive any person of . . . property without due process of law."

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munications Act of 1934, on March 11, 1949, and March 18, 1949, respectively, became effective, without objection, on April 12, 1949, and April 18, 1949, respectively, at which time they became binding upon the carriers, the public and the Commission. Under these circumstances we think it clear that these tariff regulations are not simply action of a private corporation. Certainly after approval by the Commission, such regulations would have the same force and effect as regulations of the Commission itself.<sup>2</sup> We think, therefore, that the carriers' contention that the Fifth and Fourteenth Amendments have no application to this case is without merit.

[1, 2] b. In examining the constitutional issue raised herein, we must

consider whether the right of which complainants contend as subscribers they are deprived by reason of said tariff regulations is such a right as is entitled to protection under the Constitution. Does anyone have a "property right" in the telephone service provided by defendant carriers? Any right to interstate and foreign telephone service which anyone might assert is denied him by reason of defendant carriers' regulations here involved, exists by virtue of the fact that, in the exercise of its power to regulate commerce, the Congress has seen fit, through the instrumentality of the Communications Act of 1934, to require telephone carriers to serve the public without undue or unreasonable preference.<sup>3</sup> Under the Communica-

<sup>2</sup> In *Henderson v. United States* (1945) 63 PUR NS 113, 122, 63 F Supp 906, 914, the court had before it a complaint against an order of the Interstate Commerce Commission approving certain regulations of the Southern Railway Company relating to dining-car service. In setting aside the order of the Interstate Commerce Commission dismissing the complaint and remanding the case to that Commission for further proceedings in the light of the court's decision holding that the regulations were in violation of the Fourteenth Amendment to the Constitution of the United States, the court said: "This contention brings us at once face to face with the necessity of passing upon the validity of the dining-car regulations of the Southern Railway, in effect at the time in question, because although these regulations have not been promulgated by the Interstate Commerce Commission, they have been directly approved by it, as a result of its decision and order, which is the basis of the present complaint. Therefore, they are to be treated, for the purposes of this case, as in effect the Commission's rules. . . ."

Cf. *Henderson v. United States* (1950) 339 US 816, 94 L ed —, 86 PUR NS —, 70 S Ct 843. In *Midland Realty Co. v. Kansas City Power & Light Co.* (1937) 300 US 109, 114, 81 L ed 540, 17 PUR NS 113, 57 S Ct 345, the regulations of the Missouri Public Utilities Commission promulgated pursuant to a Missouri statute were held to have the force and effect of law "as if directly prescribed by the legislature." In the case of *Partnoy v. Southwestern Bell Teleph. Co.* (1947) 70 PUR NS 134, 144, the state of Missouri Public Service

Commission had before it a tariff regulation of the Southwestern Bell Telephone Company which provided that "The telephone company shall be authorized to discontinue service upon notice from any official charged with the enforcement of the law stating that such service is being used as an instrumentality to violate the law." In passing on the reasonableness and validity of this tariff regulation, that Commission said: "No objection having been made to said rule or regulation within due time the same became entitled to be accorded the force and effect of law. . . ."

"Such rule and regulation also became the pronouncement of the public policy of the state, acting through the Public Service Commission as an arm of the state legislature in the particular field of public utility regulation."

<sup>3</sup> In *U. S. Light & Heat Corp. v. Niagara Falls Gas & E. L. Co.* PUR1931B 127, 47 F2d 567, certiorari denied (1931) 283 US 864, 75 L ed 1469, 51 S Ct 656, plaintiffs sought to have the New York Public Service Law relating thereto declared unconstitutional claiming its enforcement deprived them of property without due process under the Fourteenth Amendment of the Constitution of the United States. Mr. Justice Manton, speaking for the court, said: (PUR1931B at p. 131, 47 F2d at pp. 569, 570) "The plaintiffs . . . right to be served with gas is dependent upon § 62 of the New York State Transportation Corporations Law. . . . Except for this provision of law, there is no duty or obligation on the part of the gas company to furnish service to any applicant. . . . But a citizen has no

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tions Act, however, the right of the public to receive service is not absolute, but may be limited by conditions in the tariff regulations of carriers, which, however, must be "just and reasonable." These conditions necessarily include considerations of law and order, such as those set forth in defendant carriers' tariff regulations, and others similarly compelling involving the public welfare. We conclude, therefore, that the public (and complainants as members thereof) has no unqualified vested property right to receive telephone service which may be protected under the Fifth and Fourteenth Amendments of the Constitution, and that any right to service which may be accorded by statute may be conditioned by just and reasonable regulations of the telephone carrier.<sup>4</sup>

[3-5] c. Assuming, however, that

a subscriber had a vested property right in interstate and foreign telephone service, defendant carriers' tariff regulations in themselves do not deprive complainants of such right without due process under the Fifth and Fourteenth Amendments unless action of the carriers cutting off a subscriber's service thereunder also operates to leave him without recourse in the event said service were terminated without justifiable cause. It is quite clear that such is not the case here. Anyone who is refused service or whose service is terminated by a carrier has recourse by complaint to the courts under § 406 of the Communications Act of 1934, as amended.<sup>5</sup> As pointed out in paragraph 9 of the Agreed Statement of Facts herein, complainants have already invoked legal process under § 406 of the act by filing a bill of com-

vested rights in statutory privileges or exemption . . . This gas company became bound to furnish gas within the city of Niagara Falls by reason of the Public Service Law. The consumer was not obliged to purchase gas; he was privileged to do so. A private right may be interfered with so long as it is not vested . . . and a right is not vested unless it is something more than a mere expectation as may be based upon an anticipated continuation of the present general laws . . ."

In *Mentzer v. New England Teleph. & Teleg. Co.* (1931) 276 Mass 478, 177 NE 549, 551, the Massachusetts court said: "The defendant is a public service corporation engaged in the transmission of intelligence by electricity within the commonwealth. Its position with reference to the public is of a nature in many respects peculiar to itself. It is not a common carrier under the common law because it is not entrusted with the custody of anything of intrinsic value . . ." (Contra—*Postal Cable Teleg. Co. v. Cumberland Teleph. & Teleg. Co.* [1910] 177 Fed 726.)

In *Hollis v. Kutz*, 255 US 452, 455, 65 L ed 727, PUR1921C 637, 640, 41 S Ct 371, the Supreme Court held that an order of the District of Columbia Public Utility Commission raising rates charged by a gas company did not involve a taking of property without due process under the Constitution because "plaintiffs are under no legal obligation to take gas,

nor is the government bound to allow it to be furnished."

<sup>4</sup> Conditions imported in tariff regulations of carriers which have been approved by the courts and by Public Utility Commissions, as not in violation of the Fifth and Fourteenth Amendments of the Constitution and as just and reasonable, include the following: A regulation of a telephone company providing that the carrier would not furnish service to any patron in arrears for past services. (*Southwestern Teleph. & Teleg. Co. v. Danaher*, 238 US 482, 59 L ed 1419, PUR1915D 571, 35 S Ct 886, LRA1916A 1208.) A regulation of a power company that it would not furnish electric current to a property owner unless the latter agrees not to remeter and resell the current to his tenants. (*Lewis v. Potomac Electric Power Co.* 62 App DC 63, PUR1933C 114, 64 F2d 701.) The identical regulation here under consideration, *Katz v. Chesapeake & P. Teleph. Co.* (DC 1949) 80 PUR NS 76. Regulations of a similar purport to those here under consideration, *DeLuisa v. New Jersey Bell Teleph. Co.* (NJ 1949) 78 PUR NS 22; *Partnoy v. Southwestern Bell Teleph. Co.* (Mo 1947) 70 PUR NS 134; *Rodman v. New England Teleph. & Teleg. Co.* (Mass 1945) 61 PUR NS 242; *Ganek v. New Jersey Bell Teleph. Co.* (NJ 1944) 57 PUR NS 146; *Re Michigan Bell Teleph. Co.* (Mich 1940) 34 PUR NS 65.

<sup>5</sup> *McBride v. Western U. Teleph. Co.* (1948) 77 PUR NS 65, 171 F2d 1.



## FEDERAL COMMUNICATIONS COMMISSION

plaint in the United States district court for the District of Columbia to enjoin the termination of their telephone service. That suit, as hereinbefore stated, was dismissed at complainants' instance with the consent of all parties following withdrawal by the United States Attorney of his request for discontinuance of complainants' telephone service. Anyone claiming that a tariff regulation of any carrier on file with the Commission which adversely affects him is unjust, unreasonable, or otherwise unlawful, has recourse to the Commission by complaint in the first instance under § 208 of the act. Complainants have invoked this section of the act in the filing of their complaint, which is the subject of these proceedings. Furthermore, under § 402 of the act, the United States district courts (in accordance with Chap 157 of Title 28, United States Code, Annotated) have jurisdiction to enforce, enjoin, set aside, annul, or suspend any order of the Commission. Any person claiming to be damaged by any common carrier subject to the provisions of the act may either make complaint to the Commission or bring suit for the recovery of damages for which the carrier may be liable under the provisions of the Communications Act in any district court of the United States of competent jurisdiction. Under § 209, if, after a hearing on a complaint, the Commission shall determine that any party complaining is entitled to an award of damages under the provisions of the Communications Act, the Com-

mission has power to make an award directing the carrier to pay to the complainant the sum to which he is entitled on or before a day named. These tariff regulations of defendant carriers cannot, of course, enlarge, diminish, or otherwise alter the remedies provided by law or alter the powers conferred upon the Commission by the Communications Act. Accordingly, we conclude that they do not deprive complainants of opportunity for a hearing in violation of the Fifth and Fourteenth Amendments.

d. Complainants, however, assert that the aforesaid remedies are not adequate because they do not provide for hearing prior to any discontinuance of service; that from a procedural standpoint, due process of law is denied by the tariff regulations involved herein because "by a mere letter from a law enforcement agency the burden of proving oneself innocent is cast upon petitioners and others so circumstanced," and "not only takes away from individuals their right to telephone service, but denies to them any recourse in damages, even though the individuals may ultimately be able to show that they are not within the qualified class to whom telephone service may be denied." We find no merit in these contentions. It is well settled that "due process" does not always require a hearing before discretion is exercised.<sup>6</sup> The requirements of "due process" are satisfied if there is opportunity for a hearing and a judicial determination at some stage.<sup>6a</sup>

<sup>6</sup> A prior hearing was held not to be a prerequisite to the refusal of telephone and gas service, respectively, in *Southwestern Teleg. & Teleph. Co. v. Danaher*, *supra*, footnote 4, and in *Lewis v. Potomac Electric Power Co.*, *supra*, footnote 4.

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<sup>6a</sup> *Ewing v. Mytinger & Casselberry* (1950) 339 US 594, 94 L ed —, 70 S Ct 870; *Yakus v. United States* (1944) 321 US 414, 88 L ed 834, 64 S Ct 660; *Bowles v. Willingham* (1944) 321 US 503, 88 L ed 892, 64 S Ct 641.



## KATZ v. AMERICAN TELEPH. & TELEG. CO.

The Supreme Court in passing on the constitutionality of procedure provided under the Revenue Act of 1926 held that this statute satisfied the requirements of due process because two alternative methods of eventual judicial review are available to the transferee, and said: "Where only property rights are involved mere postponement of the judicial inquiry is not a denial of due process, if the opportunity given for the ultimate judicial determination of the liability is adequate . . . Delay in the judicial determination of property rights is not uncommon where it is essential that governmental needs be immediately satisfied. . . ."<sup>6b</sup> The tariff regulations do not, of course, relieve the carrier of the necessity of showing "probable cause" for refusal or discontinuance of service on its own initiative; nor do they operate to relieve the carriers from the consequences of damages in the event they act without probable cause in such cases. In any action brought by an individual either to require the carrier to provide or continue service terminated or discontinued on advice of a law enforcement officer pursuant to these regulations, or for damages growing out of the refusal or discontinuance of service by the carrier on such advice pursuant to its tariff regulation, the complainant would have the usual burden of supporting the allegations of his complaint. The regulations neither enlarge nor alter that burden. In such actions where the carrier had refused or discontinued service at the request of a law enforcement agency the burden of the carrier of going forward to show

"probable cause" would be met by the carrier's showing that it acted upon such request in pursuance of its tariff regulation. A complainant would have the usual opportunity of offering rebuttal evidence to show that the notice from the law enforcement agency, upon which the carrier relied, was unsupported by fact. Hence, the tariff regulations, in themselves, in no wise operate to deny complainants the right to test their application to complainants' particular use of the telephone service. In so far as these tariff regulations may operate to preclude recovery of damages to one deprived of service by a carrier upon notice of a law enforcement agency that the service was being or would be used for illegal purposes, such circumstance in and of itself does not require us to find that the regulations in question contravene the due process clauses of the Fifth and Fourteenth Amendments to the Federal Constitution; and we think, for reasons fully discussed below, a sound basis exists for affording protection to the telephone carrier. We conclude, therefore, that no denial of due process results from the application of these tariff regulations.

[6, 7] 3. Aside from the constitutional question, are these tariff regulations just and reasonable as required by § 201(b) of the Communications Act of 1934, as amended? The first sentence of the tariff regulations sets forth the condition under which complainants are entitled to require defendant carriers to provide service, namely, that the facilities "will not be used for an unlawful purpose." This is necessarily a condition of defendant carriers' service, even without such a provision in their tariff regulations. It

<sup>6b</sup> Phillips v. Commissioner of Internal Revenue (1931) 283 US 589, 596, 597, 75 L ed 1289, 51 S Ct 608.

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is well settled that a telephone company may refuse and cannot be compelled to furnish service which will be used or which the telephone company has reasonable cause to believe will be used in furtherance of illegal enterprises. No carrier can be compelled to aid in an unlawful undertaking.<sup>7</sup> The second sentence of the tariff regulations provides that "Service will not be furnished if any law enforcement agency acting within its jurisdiction advises that such service is being or will be used in violation of law, or if the telephone company receives other evidence that such service is being or will be so used." This is, in effect, a statement that advice from a law enforcement agency that service is being or will be used in violation of law will be considered to be "probable cause" for the discontinuance or refusal of service by the carrier. The carrier is not a law enforcement agency and should not be required to assume the function of law enforcement. The vital responsibility of maintaining law, order, and the prevention of crime is vested in law enforcement agencies established by the government for that purpose. These law enforcement agencies through their personnel must be presumed to act within their proper

sphere, and without improper motive. Unless and until the courts shall decide that the action of a law enforcement officer in requesting the telephone carrier to discontinue service to a subscriber is unwarranted and baseless, we think such a request must be considered an incident in the prevention of crime and maintenance of law and order, binding upon the telephone carriers, and as controlling in determining that the telephone carrier had "probable cause" for discontinuance or refusal of service.<sup>8</sup> Moreover, were the carrier to disregard the advice of law enforcement officers it might well find itself subject to prosecution for participating in an illegal enterprise. On the other hand, without some protection, the carrier refusing or discontinuing service at the request of law enforcement agencies would be under threat of civil liability in the event the accusations are wrongfully made by the enforcement officials and in the final analysis the resulting expense imposed upon the common carrier is borne by the legitimate users of its service. We conclude, therefore, that in the light of § 201(b) of the Communications Act of 1934, as amended, the tariff regulations here in question are just and reasonable.<sup>9</sup>

<sup>7</sup> *Hamilton v. Western U. Teleg. Co.* (1940) 36 PUR NS 38, 34 F Supp 928; *Tracy v. Southern Bell Teleph. & Teleg. Co.* (1940) 38 PUR NS 527, 37 F Supp 829.

<sup>8</sup> In the following cases, the courts have held that advice from a law enforcement officer that a telephone service was being or would be used for an unlawful purpose was probable cause for the refusal or discontinuance of telephone service by the carrier: *McBride v. Western U. Teleg. Co.* (1948) 77 PUR NS 65, 171 F2d 1; *Hagerty v. Southern Bell Teleph. & Teleg. Co.* (1945) 59 F Supp 107; *Tracy v. Southern Bell Teleph. & Teleg. Co.* *supra*, footnote 7; *Re Manfredonio* (1944) 183 Misc 770, 52 NYS2d 392; *Dente v. New York Teleph. Co.* (1944) 55 NYS2d 688. A con-

trary view was taken by the court in *Andrews v. Chesapeake & P. Teleph. Co.* (1949) 79 PUR NS 149, 83 F Supp 966, but the court denied the injunction upon a finding that the service was in fact being used for an unlawful purpose (1949) 89 F Supp 176.

<sup>9</sup> The regulation here under consideration was before the District of Columbia Public Utilities Commission in *Katz v. Chesapeake & P. Teleph. Co.* (1949) 80 PUR NS 76, and that Commission held that the telephone tariff regulation is valid, consistent with the public interest, and in no degree a denial of due process. Regulations similar to those here under consideration have been found to be just, reasonable, and lawful by the following additional Public Service Commissions: New

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[8] 4. In view of our conclusions which take into consideration the rights, interests, and remedies of complainants, the defendant carriers, the interests of the public and our jurisdiction and responsibility in the premises, under the Communications Act of 1934, as amended, and the Fifth and Fourteenth Amendments of the Constitution of the United States that the tariff regulations of defendant carriers here involved are just, reasonable, and

lawful, the complaint should be dismissed.

### ORDER

It is, therefore, *ordered*, This 1st day of November, 1950, that the complaint of Harry Katz and Bertha B. Katz, be, and it is hereby, dismissed.

Released: November 3, 1950, and effective forty days thereafter, subject to § 1.853 of the Commission's Rules.

Jersey Public Service Commission in Slapkowski v. New Jersey Bell Teleph. Co. (1947) 67 PUR NS 33; Missouri Public Service Commission in Partnory v. Southwestern Bell

Teleph. Co. (1947) 70 PUR NS 134; Massachusetts Department of Public Utilities in Rodman v. New England Teleph. & Teleg. Co. (1945) 61 PUR NS 242.

## WISCONSIN PUBLIC SERVICE COMMISSION

# Re Wisconsin Telephone Company

2-U-3158

September 21, 1950

**A**PPPLICATION by telephone company for authority to increase telephone rates; modified increase authorized.

*Apportionment, § 61 — Allocation of telephone property — Subscriber lines — Separations Manual.*

1. Provisions in the NARUC Separations Manual for allocation of the cost of subscribers' lines, instruments, and exchange switchboard equipment in proportion to the time such facilities are actually used for exchange and toll service produce erroneous results and are unacceptable where a telephone company is using a flat rate for exchange service and a message rate for toll service, since the former tends to promote unlimited use of service, while the latter has the opposite effect, p. 82.

*Apportionment, § 7 — Telephone properties and expense — Basis for allocation — Subscriber line usage.*

2. The subscriber line usage factor determined by use of service under diametrically opposite forms of rates, i.e., flat rates and message rates, is not an equitable basis for allocating property and expenses between toll and exchange telephone service, since a flat rate for exchange service encourages use, while a message rate tends to discourage toll calls, p. 82.

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### *Apportionment, § 7 — Telephone properties and expenses — Adjustment to customer line usage allocation.*

3. Fifty per cent of the change in investment and expenses allocated to toll service and exchange service occasioned by weighting toll usage two for one as compared with exchange usage, instead of on an equal basis, was considered as producing the minimum shift in the allocation of costs between the two types of service necessary to avoid inequitable results where toll service was on a message rate and exchange service on a flat rate, p. 84.

### *Return, § 26 — Cost of capital — Telephone company obtaining funds from parent.*

4. The cost of capital to a telephone company which is wholly owned by a national system from which it obtains its capital is the cost of capital to its parent company, p. 84.

### *Return, § 26 — Estimate of earnings — Dividend yield of past period.*

5. The average dividend yield of a telephone company during a period approximately thirty years ago is without probative value in estimating its current earnings requirement, since conditions affecting the money market are entirely different now from what they were at that time, p. 87.

### *Return, § 27 — Dividend pay-out percentage — Guide to return requirement.*

6. A telephone utility's dividend payout percentages based upon its experience during a single year was not considered a reasonably satisfactory guide for the determination of its return requirements, p. 88.

### *Return, § 41 — Telephone company's earnings requirement — Consideration of suppliers' earnings.*

7. The average earnings of a supplier of telephone equipment which is affiliated with a nation-wide telephone system from which a local company obtains all its capital should be considered in determining the telephone company's earnings requirements, p. 92.

### *Return, § 41 — Wholly owned local telephone company — Cost of capital to parent.*

8. A reasonable rate of return for a telephone company obtaining all its capital from a parent company which owns all of its stock should be such as to cover its fair share of the cost of capital to its parent, including as a part thereof an allowance over and above the bare dividend on equity capital sufficient to attract capital necessary to meet its public service requirements, p. 92.

### *Return, § 111 — Telephones.*

9. A telephone company's return of 5.35 per cent on its rate base, with no adjustment for income taxes, was considered reasonable, p. 92.

By the COMMISSION: On August 7, 1950, the Commission issued an interim order in the above docket setting forth its ultimate findings of fact, and directing the applicant to file within thirty days of date thereof a schedule of intrastate toll rates designed to in-

crease the 1949 year-end level of revenues by \$1,932,000.

The applicant on September 6, 1950, submitted a proposed schedule of toll rates in compliance with the order of August 7, 1950. It is the purpose of this opinion and supple-

## RE WISCONSIN TELEPH. CO.

mental order to set forth in summary form the essential supporting data for the findings in the August 7, 1950, order and to authorize a new schedule of intrastate toll rates.

The company's application to increase rates by approximately \$6,000,000 annually was filed with the Commission on September 30, 1949.

Hearings were held at Madison on January 4, 5, and 6, and March 1, 2, and 3, and May 25, 1950, before Commissioners John C. Doerfer and W. F. Whitney, on March 27 and 28, 1950, before Commissioners John C. Doerfer and Samuel Bryan, and on March 29 and 30, and April 5, and 6, 1950, before Commissioners John C. Doerfer, Samuel Bryan, and W. F. Whitney.

**APPEARANCES:** Wisconsin Telephone Company, Francis J. Hart, Counsel, and Miller, Mack & Fairchild, by Marvin Klitsner, of counsel; Municipalities Defense Committee, by Walter J. Mattison, Chairman, Maxwell H. Herriott, Counsel, Harry G. Slater, Counsel, and Harold Hanson, Counsel. City of Milwaukee: Walter J. Mattison, by Harry G. Slater, Assistant City Attorney. City of Madison: Harold Hanson, City Attorney. Village of Fox Point: Maxwell H. Herriott, Village Attorney. City of Menasha: John R. Scanlon, Mayor, and Melvin L. Crowley, Attorney. City of Superior: George Flynn, City Attorney. City of South Milwaukee: Robert E. Mullins, City Attorney. City of West Allis: Ferdinand A. Glopek, Acting City Attorney, and George Schmus, City Attorney. City of Oshkosh: E. R. Siewert, Mayor, W. Glenn Schroeder, Alderman, Walter Madson, Alderman, and

Harry E. Meyer, City Attorney. City of Racine: Thomas P. Corbett, City Attorney. City of Manitowoc: Woodrow Schmitz, City Attorney. Village of Kimberly: Al Fulcer, Village President, and Alfred Bradford, Village Attorney. City of Kenosha: R. V. Baker, City Attorney. City of New London: S. W. Krostue, City Attorney. City of Fond du Lac: Mayor Weis, and George M. St. Peter, Attorney. City of Baraboo: R. F. Gollmer, City Attorney. City of Oconomowoc: George C. Johnson, City Attorney. Village of Little Chute: U. P. Van Susteren, Village Attorney. City of Appleton: Robert L. Roemer, Mayor, and Harry P. Haefel, City Attorney. City of Stevens Point: Roman L. Wanta, City Attorney. City of West Milwaukee: Allen J. Busby, Attorney. City of Kaukauna: H. F. McAndrews, City Attorney. City of Waukesha: Richard S. Hippenmeyer, City Attorney, and William G. Callow, Assistant City Attorney. City of Green Bay: Clarence Nier, City Attorney. City of Watertown: Harold Hartwig, City Attorney. City of Tomah: H. B. Bell, Mayor. Vernon Vogt, as an individual Waukesha. Wisconsin Federation of Labor: Padway, Goldberg & Previant. Division 23, Communication Workers of America, C. I. O.: Edward V. Peil, Vice President, Catherine Conroy, and Anna Jepezauer. Wisconsin State Hotel Association: P. H. Porter, Attorney. Senator Earl H. Leverich, 31st Senatorial District. Wisconsin-Milwaukee County Industrial Union Council, C.I.O.: Glenn M. Clark, Secretary-treasurer, and John M. Sorenson, Milwaukee. The Wisconsin



## WISCONSIN PUBLIC SERVICE COMMISSION

sin Taverns Association: H. B. Bell, Columbus.

Of the Commission staff: William E. Torkelson, Chief Counsel, A. R. Colbert, Chief, William Holmes, Division of Accounts and Finance, H. J. O'Leary, Chief, K. J. Jackson, Rates and Research Department, George P. Steinmetz, Chief, and D. J. Nicholson, Engineering Department.

Briefs were submitted by Francis J. Hart, Counsel, and M. E. Klitsner, of counsel, for the applicant; Maxwell H. Herriott for the Municipalities Defense Committee; Walter J. Mattison and Harry G. Slater for the city of Milwaukee; Richard S. Hippenmeyer for the city of Waukesha; Harold Hanson for the city of Madison; George A. Schmus and Ferdinand A. Glopek for the city of West Allis; and Harry E. Meyer, Clarence Nier, and George St. Peter for the cities of Oshkosh, Green Bay, and Fond du Lac.

The testimony and the exhibits presented by the various parties to the proceeding and the Commission staff focuses attention on two fundamental issues—namely, (1) the reasonableness and propriety of the applicant's allocation of investment and expenses between exchange service, state toll service, and interstate toll service, and (2) what is a reasonable rate of return. Since the intrastate rate base and level of earnings in Wisconsin are both affected by the allocation of investment and expenses involved in the separations procedures, that subject will be considered first.

### *Separation Methods*

[1,2] The applicant's plant is used for local exchange, state toll, and in-

terstate toll service. Parts of the plant and related expenses are used only for exchange service or only for toll service, but other portions are used jointly for exchange and toll service. In presenting its case, applicant made a separation of plant and expenses assignable to exchange, state toll, and interstate toll service in accordance with the procedure for separating property, revenues, and expenses set forth in the Separations Manual prepared by a Special Cooperative Committee on Telephone Regulatory Problems comprised of representatives of the Federal Communications Commission and the National Association of Railroad and Utilities Commissioners. The manual has never been formally adopted by the Federal Communications Commission or this Commission. It is not conclusive nor controlling.

In this proceeding, the Commission's chief engineer presented testimony with respect to one phase of the separation procedure which he considered produced erroneous results. This concerns the methods set forth in the Separations Manual for the allocation of subscribers' lines, telephone instruments, and exchange switchboard equipment and associated costs. The manual provides that such equipment and associated costs shall be allocated to exchange and toll service *in proportion to the time such facilities are actually used* for exchange and toll service. This basis is commonly referred to as the subscriber line usage factor. The actual time in use of these facilities is relatively small, being about 4 per cent for the instruments and 8 per cent for subscriber lines. Of the total actual time in use, somewhat



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over 90 per cent is for local exchange service and somewhat less than 10 per cent for toll service. Hence, the application of the subscriber line usage factor assigns between 90 and 95 per cent of the idle time to exchange service and between 5 and 10 per cent of the idle time to toll service.

The Commission's chief engineer testified that the application of this factor according to the manual produced results which were erroneous in that two large a portion of the telephone instruments, subscriber line facilities, and associated equipment and related costs were allocated to exchange service and too small a portion allocated to toll service. He based his conclusion upon the fact that the very usage upon which the allocation was based was, in the case of toll service, deterred by the form of rate applicable to such service and in the case of exchange service unrestrained because of the form of rate. Except for Milwaukee, the applicant's rates for exchange service are flat rates. These rates do not vary depending upon the volume of the subscriber's use of the service. Since the subscriber incurs no penalty by increasing the number of calls and his bill remains the same whether the number of calls is great or small, flat rates tend to promote unlimited use of service. On the other hand, toll rate schedules provide for rates based upon a charge for each message. The cost per message also varies with conversation time and length of haul. The application of a rate based on message units tends to discourage the use of the service, since the subscriber can limit the amount of his toll bill by restraint in the use of the service.

The opposite tendencies promoted by the difference in the form of rate was demonstrated by evidence introduced by the Commission staff. This evidence shows that in instances where unlimited service has been discontinued and message toll rates applied in lieu thereof a reduction in time of use of about 75 per cent occurred. On the other hand, where message toll rates were discontinued and unlimited service at flat rates substituted in lieu thereof, time in use increased from three to six times or more. These results point up very clearly that the subscriber line usage factor determined by use of service under diametrically opposite forms of rates is not an equitable basis for allocating property and expenses between two diverse types of service.

The fallacy inherent in the use of the subscriber line usage factor prescribed in the Separations Manual is further demonstrated by the fact that if measured service rates for exchange service were prescribed for all of the applicant's exchanges, there would immediately be a substantial increase in plant and expenses allocated to toll service, even though the use of toll service did not change. In that case, both exchange and toll service would become subject to the same kind of deterrents in use of service, and, under such circumstances, the factors which determined subscriber line usage on both the exchange and toll side of the equations would be similar. The effect of the unbalance in use created by differences in rate forms can be overcome, in part, at least, by according greater weight to toll time in use than to exchange time in use in the allocation of joint costs. By such a method

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we deem it is possible to obtain a more equitable allocation of the real costs which would be incurred if both services were furnished under rates which promoted similar use patterns.

[3] After giving consideration to the diversity in use of service promoted by the difference in the form of rates applicable to the exchange and toll service, the Commission's chief engineer recommended that time in use applicable to toll service should be given a weighting of at least two as compared to a weighting of one for time in use for exchange service. The Commission is satisfied that a reasonable allocation of cost between exchange and toll service is not obtainable by application of the subscriber line usage factor provided in the Separations Manual. It may well be that the weighting proposed by the Commission's chief engineer will produce

reasonable results. However, pending further study of the matter, it is the Commission's considered judgment that for the purposes of this proceeding 50 per cent of the change in investment and expenses occasioned by weighting toll usage two for one as compared with exchange usage will produce the minimum shift in the allocation of costs between exchange and toll service which the Commission considers reasonable and necessary.

In its order of August 7th, the Commission set forth in findings 1 and 3, the effect of the adopted reallocation upon the rate base and net operating income. The basic adjustments involved are set forth in more detail below: [Table omitted.]

The net effect of the shift in allocation of investment and expenses adopted by the Commission is summarized as follows:

	Total Company	Interstate	Total Intrastate	Exchange	Intrastate Toll
Investment add or (subtract) .....	—	\$642,500	(\$642,500)	(\$1,945,000)	\$1,302,500
Net operating income add or (subtract) .....	—	(\$78,500)	\$78,500	\$238,500	(\$160,000)

It will be noted that the major shift occurs between exchange and intrastate toll service. Of the total investment and expenses deducted from exchange service, approximately one-third is added to interstate toll service and the remaining two-thirds added to intrastate toll service.

### *Rate of Return*

[4] There is general agreement in the record that, since the applicant is wholly owned by A.T.&T.Co. and secures its capital through A.T.&T.Co., to the extent that cost of capital is a criterion of what the earnings rate

should be, the cost of capital to applicant is the cost to A.T.&T.Co. There is agreement as to the cost of debt capital to A.T.&T.Co. There is agreement as to desirability of maintenance of the \$9 dividend on A.T.&T.Co. stock. There is agreement on the proposition that earnings should be such as to encourage and bring about conversion of present convertible debentures into common stock equity. In fact, as stated succinctly by counsel for applicant in his brief, "There remains in the area on which the witnesses are in disagreement only the question of *how much over* the \$9

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dividend must the earnings be now to give reasonable assurance of its continuance."

Testimony bearing on the rate of return was presented on behalf of the applicant by Mr. Donald R. Belcher, treasurer of A.T.&T.Co., Mr. Harold M. Flinn, assistant treasurer of A.T.&T.Co., Dr. Merwin H. Waterman, professor of finance in the School of Business Administration at the University of Michigan, and Mr. Clarence A. Bickel, vice president and treasurer of Robert W. Baird and Company, Inc., investment brokers and dealers, of Milwaukee, Wisconsin. Commission staff testimony on rate of return was presented by Mr. A. R. Colbert, Chief of the Accounts and Finance Department.

Mr. Belcher estimated the earnings requirement of the Bell system at 7 per cent of total capitalization. This percentage was based on the cost of fixed charge capital of 2.96 per cent and an earnings estimate on equity capital of 9 per cent applied to a consolidated capital structure comprised of one-third fixed charge capital and two-thirds equity capital. The actual present consolidated capitalization ratios of A.T.&T.Co. (Sept. 30, 1949) are approximately 51 per cent fixed charge capital and 49 per cent equity capital. However, Mr. Belcher testified regarding the long-time policy of A.T.&T.Co. in keeping the amount of debt to about one-third of total capitalization and the desirability of getting the debt ratio back to that level.

The total Bell system earnings requirement, as estimated by Mr. Belcher, is shown below, computed from Exhibit 8:

1. Total Bell system capital, Sept. 30, 1949, comprised of sum of total stock equity and debt capital .....	\$7,287,688,000
2. Deduct investments in non-consolidated companies ..	92,916,000
3. Total Bell system capital less above investments .....	\$7,194,772,000
4. Earnings needed, 7% of line 3 .....	503,634,000
5. Deduct:	
Earnings on A.T.&T.Co. investment in Western Electric Co. based on average earnings of 8.39% for period 1916-1948 applied to investment in W. E. Co. of \$316,099,889 .....	26,521,000
Net of license contract revenues and miscellaneous income less general dept. expense .....	(1,105,000)
Total deduction .....	\$25,416,000
6. Estimated earnings needed from Bell system telephone operations .....	\$478,218,000

Having estimated the total Bell system earnings requirement from telephone operations, Mr. Belcher then estimated the earnings requirement of applicant based on the proportion which Wisconsin capital bore to total Bell system capital after deduction for certain investments, as shown below:

1. Total Bell system capital ...	\$7,287,688,000
2. Deduct investments in non-consolidated companies in Western Electric Co., in Bell Telephone Laboratories, Inc. and certain assets of A.T.&T.Co. general department .....	732,563,000
3. Capital allocation base .....	\$6,555,125,000
4. Wisconsin Telephone Co. capital stock and surplus..	\$122,340,825
5. Per cent Wisconsin capital of capital allocation base..	1.87%
6. Estimated earnings needed from Bell system telephone operations .....	\$478,218,000

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7. Estimated earnings requirement of Wisconsin before tax savings adjustment (item 5 times item 6)....	8,943,000
8. Less tax savings allocated to Wisconsin .....	554,000
9. Estimated earnings requirement of Wisconsin after adjustment for tax savings .....	8,389,000
10. Per cent of total Wisconsin capital (item 9 divided by item 4) .....	6.86%

Since Wisconsin has no debt of its own, Mr. Belcher credits it with a pro rata share of the reduction in income tax occasioned by the interest deductions on Bell system debt, less tax expenses of A.T.&T.Co. general department.

Mr. Flinn's testimony related to the relative stability of revenues and return of the telephone business as compared with other businesses and especially with other classes of utilities. The import of his testimony was that revenues and return of telephone utilities fluctuate more, that is, have greater instability, than water and electric utilities though somewhat less than railroad and major manufacturing companies.

Dr. Waterman testified regarding his opinion of the required return for Wisconsin if it were independent of the Bell system and expressed his judgment that the return should be in the area of \$11,000,000, which would be about 9 per cent of Wisconsin capital of \$122,340,825 as of September 30, 1949.

Mr. Bickel testified regarding his opinion of the level of earnings required on A.T.&T.Co. stock to maintain its investment status and to induce potential investors to purchase the stock. He concluded that A.T.&T.Co. stock should sell currently at about 13 times its earnings and

that the \$9 dividend should be about 70 per cent of its earnings. On this basis, he stated earnings per share should be between \$12.75 and \$13 a share on the stock after full conversion of outstanding convertible debentures and the issuance of the balance of the stock under the employees' stock plan.

Mr. Colbert based his estimate of the required return for Wisconsin on the cost of capital to A.T.&T.Co. Since Wisconsin capital is obtained from A.T.&T.Co., he allocated the capital structure of A.T.&T.Co. among its investments, thus computing the proportionate part of A.T.&T.Co.'s capital structure assignable to Wisconsin. On the debt allocated to Wisconsin, interest was computed at 2.86 per cent, being the cost of A.T.&T.Co. Interest on capital stock instalments was computed at the annual cost of 2.01 per cent. Return on stock equity (book value) was figured at 8.32 per cent on the present stock, being derived from an estimated allowance of 7.2 per cent on the book value of A.T.&T.Co. stock assuming all convertible debentures were converted into common stock. He estimated the composite return requirement at 5.25 per cent of Wisconsin capital plus the portion of A.T.&T.Co. general department assets allocated to Wisconsin, as shown by the following data taken from Exhibit 36: [Table omitted.]

Mr. Colbert pointed out that the 5.25 per cent is net after the credit to the Wisconsin Company of its share of A.T.&T.Co.'s income tax reduction because of interest expense. He testified that if the income tax saving were applied to reduce the tax expense of

# RE WISCONSIN TELEPH. CO.

the Wisconsin Company, the return requirement would be 5.84 per cent, out of which the stockholder would have to pay Wisconsin privilege dividend taxes and his own income taxes on the dividends received.

The proper level of earnings on A.T.&T.Co. stock is the essential question. Differences in the technical approach of witnesses, such as Mr. Belcher's use of consolidated A.T.&T.Co. data and Mr. Colbert's use of corporate A.T.&T.Co. data in allocating capital costs to Wisconsin, are insignificant in relation to the more important question as to the required level of equity earnings of A.T.&T.Co.

Statistics regarding A.T.&T.Co. stock are shown in Exhibit 36, from which the following data were prepared: [Table showing consolidated book value per share, market value per share, consolidated earnings per share, earnings price ratio, and dividend yield on market omitted.]

The 7 per cent return on Bell system capitalization estimated by Mr. Belcher would result in consolidated earnings of \$15.85 per share on A.T.&T.Co. stock outstanding at September 30, 1949, and \$13.46 per share on the pro forma shares of stock assuming all convertible debentures were exchanged for common stock as of that date. During the period 1920-1949, when consolidated data were available, there has been no year when earnings were as high as \$15.85 a share and only six years when earnings were more than \$13.46 a share. These six years were in the period prior to 1930 when interest rates and dividend yields were generally higher than those currently being experienced.

As a matter of fact, in considering the earnings required on A.T.&T.Co. stock to attract equity capital, Mr. Belcher testifies that "primary consideration must be given to the earnings of the 1920-1926 period." Certain statistics regarding A.T.&T.Co. common stock during that period are set forth below:

	Arithmetic Average 1920-1926
Consolidated book value per share	\$137.40
Market value per share .....	122.67
Consolidated earnings per share ...	13.10
Consolidated earnings price ratio ..	10.69%
Dividend yield .....	7.29%

[5] It is observed that during the 1920-1926 period the average dividend yield on A.T.&T.Co. stock was 7.29 per cent. This may be compared with substantially lower yields in more recent periods, the average for January 1, 1946, to September 30, 1949, being 5.65 per cent, which is nearly 30 per cent lower than the average dividend yields in the 1920-1926 period. It will be noted, also, that, during 1920-1926, when average earnings were \$13.10 a share, the average market value was \$122.67, which was lower than average book value of \$137.40 a share. In contrast, during January 1, 1946, to September 30, 1949, with average earnings of \$9.18 a share, the average market value was \$160.87, which was higher than average book value of \$134.12 per share.

The Commission considers that the experience of the 1920-1926 period is without probative value in estimating current earnings requirements. The period is twenty-five to thirty years past and the conditions affecting the money market are entirely different



## WISCONSIN PUBLIC SERVICE COMMISSION

than those prevailing today. There were also other differences affecting earnings in that period.

Mr. Bickel estimated a consolidated earnings requirement for A.T.&T.Co. stock between \$12.75 and \$13 a share after full conversion of convertible debentures and issuance of stock under the employees' stock plan. He based this conclusion upon the premise that A.T.&T.Co. stock should sell at about 13 times earnings; the current \$9 dividend should be about 70 per cent of current earnings; and that the yield should be not less than 5.25 per cent. The gist of Mr Bickel's testimony is that with A.T.&T.Co. having about a 60 per cent stock equity and a 40 per cent debt ratio (the approximate ratios if all convertible debentures were converted and all stock issued under the employees' stock plan), the price earnings ratio would be about 13 (or an earnings price ratio of 7.69 per cent) and that the dividend payout would be about 70 per cent of earnings.

Mr. Bickel admitted that he obtained estimated earnings requirement of \$12.75 to \$13 a share based on an earnings price ratio higher than any annual average earnings price ratio that has prevailed during the past twenty-two years, and that the only years since 1920 when the earnings price ratios were as high as he used where in the 1920-1928 period when interest rates and dividend yields were much higher than at present. The dividend payout of 70 per cent testified to by Mr. Bickel appears to be influenced by the record of dividend payouts of selected electric utilities during 1949 and early 1950. Mr. Bickel tes-

tified that the percentages of dividend payout for these companies were 83 per cent on April 27, 1949; 82 per cent on August 12, 1949; 79 per cent on November 5, 1949; and 71.36 per cent on March 23, 1950.

[6] The Commission does not consider that dividend payout percentages based upon the experience of a single year or conditions currently prevailing establish a reasonably satisfactory guide for the determination of return requirements. Fluctuations in income may result in dividends exceeding income in years of poor earnings and the percentage payout may be quite low in years of good earnings. The average experience over a somewhat longer period is of greater significance.

The average percentage of dividend payout for 15 electric utilities with assets over \$200,000,000 and having average common equity of 40 per cent was 81 per cent for the period 1942 to 1948. For the companies in this group having more than 40 per cent stock equity, the averages were 49 per cent stock equity and 84 per cent dividend payout.

The dividend payout record of several large operating telephone utilities, as shown by Exhibit 63, is:

	Average, 1936-1949	
	Per Cent Stock Equity	Per Cent Dividend Payout
Bell Teleph. Co. of Canada <sup>1</sup> .....	56.06	97.65
Cincinnati and Suburban Bell Teleph. Co. ....	93.70	96.79
Mountain States Teleph. & Teleg. Co. ....	57.15	93.71
New England Teleph. & Teleg. Co. ....	54.87	94.57
So. New England Teleph. & Teleg. Co. ....	64.17	87.96
Carolina Teleph. & Teleg. Co. ....	79.51	91.80

<sup>1</sup> 1936-1948.



## RE WISCONSIN TELEPH. CO.

The record also shows the percentage of dividend payout for 121 electric utilities for the year 1948, classified into groups according to the percentage of common stock equity. For utilities in the 20-25 per cent stock equity group, the dividend payout was 63.24 per cent and averaged about 66 per cent for the utilities having less than 45 per cent stock equity. Utilities with higher stock equities showed higher percentages of dividend payout, as indicated below:

Number of Companies	Per Cent of Stock Equity	Per Cent Dividend Payout
3 .....	95-100%	95.89
2 .....	85- 90	97.53
3 .....	75- 80	92.60
2 .....	70- 75	92.56
2 .....	65- 70	89.34
1 .....	60- 65	86.23
3 .....	55- 60	82.74
4 .....	50- 55	99.95
6 .....	45- 50	82.65

There are not enough electric utility companies in the higher common stock equity brackets to draw definite conclusions regarding the trend of dividend payouts in relation to stock equity. However, although the available data are limited, it appears that, in general, higher stock equities usually are accompanied by higher percentages of dividend payout.

During the period 1920-1949, the A.T.&T.Co. has paid out varying percentages of its income ranging from 57 per cent in 1928 to 167 per cent in 1933. The averages for selected periods were as follows:

Period	Average Earnings per Share	Per Cent Dividend Payout
1920-1949 <sup>1</sup> .....	9.85%	91.4%
1936-1941 .....	9.95	90.5
1942-1945 .....	9.03	99.7
1946-1949 <sup>1</sup> .....	9.17	98.1

<sup>1</sup> Sept. 30, 1949.

During and subsequent to the war, the dividend payout percentage has been high because of reduced earnings, and the experience for these years is not normal. For the 6-year period preceding the war, however, when the Bell system made rate reductions in each of the years, the dividends paid averaged over 90 per cent of earnings.

Mr. Colbert based his estimate of A.T.&T.Co. earnings requirement on corporate earnings of A.T.&T.Co. of 7.2 per cent on the book value of the stock after conversion of all convertible debentures. The resulting approximate consolidated earnings per share are shown at \$10.30 a share in Exhibit 36. In Exhibit 37, using consolidated data, Mr. Colbert shows that his estimate of 5.25 per cent return for Wisconsin would indicate consolidated A.T.&T.Co. earnings of about \$12.27 a share on present A.T.&T.Co. stock equal to about \$10.34 on the stock after conversion of the debentures; and, if total Western Electric Company 1949 earnings are included rather than its average earnings, the indicated per share earnings are \$12.92 and \$10.84, respectively. Thus, the present \$9 dividend would be about 87 per cent of the consolidated earnings as estimated by Mr. Colbert if Western earnings are included on an average basis, or 83 per cent if all of its 1949 earnings are included.

The amount of capital which has been raised by A.T.&T.Co. in recent years is shown on page 90.

# WISCONSIN PUBLIC SERVICE COMMISSION

Year	Increase in Stock Equity <sup>1</sup>	Increase in Stock Instalments	Increase in Funded Debt	Total Increase in Capital
1946 .....	\$64,795,899	—	\$486,047,797	\$550,843,696
1947 .....	103,123,968	\$7,122,639	1,004,327,100	1,114,573,707
1948 .....	278,005,769	75,848,539	648,894,900	1,002,749,208
1949 <sup>2</sup> .....	157,276,078	61,356,963	315,304,000	533,937,041
Total .....	\$603,201,714	\$144,328,141	\$2,454,573,797	\$3,202,103,652

<sup>1</sup> Includes premiums, surplus, and minority interest.

<sup>2</sup> To Sept. 30, 1949.

Since September 30, 1949, through February, 1950, additional equity capital has been obtained through con-

version of debentures and the employees' stock plan, as follows:

Month	Employees' Stock Plan		Conversion of Debentures		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Oct. 1949 .....	8,669	\$1,069,283	226,019	\$29,429,441	234,688	\$30,498,724
Nov. 1949 .....	8,931	1,105,157	227,432	29,623,259	236,363	30,728,416
Dec. 1949 .....	11,507	1,449,524	229,782	30,023,730	241,289	31,473,254
Jan. 1950 .....	4,850	614,854	292,629	38,240,929	297,479	38,855,783
Feb. 1950 .....	889,756	112,943,010	194,865	25,512,602	1,084,621	138,455,612
Total .....	923,713	\$117,181,828	1,170,727	\$152,829,961	2,094,440	\$270,011,789

Thus, in the four years since January 1, 1946, A.T.&T.Co. has raised about 3½ billions of additional capital. Debt financing has accounted for a large part of the increase. However, from January 1, 1946, through February, 1950, \$873,000,000 of additional stock equity has been obtained. During this period, the earnings of A.T.&T.Co. were as follows:

Year	Consolidated Earnings per Share	Debt Ratio End of Year
1946 .....	\$10.23	37.8%
1947 .....	7.66	48.0
1948 .....	9.86	50.5
1949 .....	9.70	51.1 <sup>1</sup>

<sup>1</sup> Sept. 30, 1949.

The fact that A.T.&T.Co. earnings have been low during the past three years has been generally recognized, as evidenced by rate increases granted by regulatory Commissions throughout the nation. If the earnings

had been higher, there is good reason to believe that a larger portion of capital requirements would have been financed by equity capital. The Commission is far from persuaded, however, that the earnings need be as high as estimated by applicant. Its estimated earning requirement for the year 1949, with the debt ratio then prevailing, would have meant an earning of \$15.85 per share instead of the \$9.70 actually earned.

After considering the evidence herein, the Commission considers that consolidated earnings of about \$10.30 a share on the stock of A.T.&T.Co., after conversion of all convertible debentures, would adequately cover the \$9 dividend and provide sufficient cushion above the dividend to attract necessary equity capital. The \$10.30 per share, however, must be converted into its equivalent earnings per share on the presently outstanding stock in

# RE WISCONSIN TELEPH. CO.

order to determine the amount to be considered in relation to present actual capitalization. This computation is shown below based on consolidated capitalization as of September 30, 1949:

	Amount of Capital	Earnings Requirement Per Cent	Amount
Pro forma consolidated capital excluding minority interest:			
Common equity (32,051,835 shares at \$10.30 per share) .....	\$4,339,139,636	7.61%	\$330,133,901
Capital stock instalments .....	144,328,141	7.61 <sup>1</sup>	10,983,372
Preferred stock .....	17,904,300	6.00	1,074,258
Funded debt .....	2,973,000,000	2.96	87,879,131
Total .....	<u>\$7,474,372,077</u>	<u>5.75%</u>	<u>\$430,070,662</u>

Common earnings as above on stock after conversion of debentures .....	\$330,133,901
Deduct earnings on premium (\$290,639,854) receivable on conversion of debentures at average rate above of 5.75% .....	(16,711,792)
Deduct savings in interest expense on conversion of debentures .....	(21,861,015)
Add increase in federal income taxes on reduction of interest expense .....	8,307,186
Required earnings on present stock .....	<u>\$299,868,280</u>
Earnings per share on 24,548,843 shares .....	\$12.22
Per cent on book value of \$3,298,200,582 .....	9.09%

<sup>1</sup> In view of imminence of issuance of capital stock, earnings allowance computed at same per cent as for common equity.  
( ) Denotes red figure.

Thus, on the present capitalization of A.T.&T.Co., it would require about \$12.22 a share to equal \$10.30 a share on the increased number of shares which would result on full conversion of the convertible debentures. With this cost of present

equity capital, the total Bell system earning requirement and the portion thereof applicable to Wisconsin, following in substantial part the procedures used by Mr. Belcher, and after allowing 7.61 per cent on capital stock instalments, are computed as follows:

	Amount of Capital	Earnings Requirement Per Cent	Amount
Consolidated capital, Sept. 30, 1949, excluding minority interests:			
Common equity (24,548,843 shares at \$12.22 per share) .....	\$3,298,200,582	9.09%	\$299,868,280
Capital stock instalments .....	144,328,141	7.61	10,983,372
Preferred stock .....	17,904,300	6.00	1,074,258
Funded debt .....	3,723,299,200	2.95	109,740,146
Total .....	<u>\$7,183,732,223</u>	<u>5.87</u>	<u>\$421,666,056</u>
Deduct A.T.&T.Co. investment in Western Electric Co. and average earnings thereon per Exhibit 8 ..	(316,099,889)		(26,521,000)
Add net loss on A.T.&T.Co. general department (license contract and miscellaneous operations) from Exhibit 8 .....			1,105,000
Balance of capital and earnings requirement .....	<u>\$6,867,632,334</u>	<u>5.77%</u>	<u>\$396,250,056</u>

## WISCONSIN PUBLIC SERVICE COMMISSION

Earnings requirement assignable to Wisconsin, 1.87%, based on proportion of Wisconsin capital, including A.T.&T.Co. servicing investment allocated to Wisconsin of \$128,222,297 to total capital above of \$6,867,632,334 .....	\$7,409,876
Deduct tax savings allocated to Wisconsin per Exhibit 8 .....	554,000
Earnings requirement of Wisconsin net of tax saving .....	6,855,876
Per cent of Wisconsin capital, including servicing investment of A.T.&T.Co. of \$128,222,297:	
Before tax savings .....	5.78%
After tax savings .....	5.35%

[7] In ascertaining the total earnings requirement of Wisconsin, average earnings of Western Electric Co. are deducted from the Bell system earnings requirement. The average earning allowance is based on the per cent earned by Western of 8.39 per cent for 1916-1948 applied to A.T.&T.Co. investment in Western of \$316,099,889 as of September 30, 1949. The Commission considers it proper that average earnings of Western should be considered in determining the telephone earnings requirement. However, actual Western earnings in 1949 applicable to A.T.&T. Co. stock were \$15,959,380 in excess of the credit for average earnings of \$26,521,000. Hence, on the basis of the 1949 earnings, there would be a further cushion of about 50 cents a share above the \$10.30 per share allowance after conversion of the debentures and 65 cents a share above the \$12.21 a share on stock outstanding September 30, 1949. Although not considered herein in determining telephone earnings, these additional earnings of Western would nevertheless be reflected in consolidated earnings per share of A.T.&T. Co.

[8, 9] The Commission concludes that a reasonable rate of return for

Wisconsin should be such as to cover its fair share of the cost of capital to A.T.&T.Co., including as a part of cost of capital an allowance over and above the bare \$9 dividend on equity capital sufficient to attract additional capital necessary to meet public service requirements. Considering the evidence in this proceeding, the Commission concludes that the reasonable rate of return for the applicant is 5.35 per cent with no adjustment being made of the applicant's income tax expense. However, in connection with the foregoing conclusion, the Commission calls attention to the testimony presented both by the applicant and the Commission's staff allocating to the applicant the income tax savings accruing to the A.T.&T.Co. by virtue of the fact that A.T.&T.Co. carries all of the debt capital assignable to the Wisconsin Company. If such tax savings were to be actually reflected in the tax expenses of the Wisconsin Company, the 5.35 per cent rate of return would become 5.78 per cent.

### *Rate Base*

The exchange and intrastate toll rate bases as set forth in finding 2 of the Commission's order of August 7, 1950, were determined as shown on page 93.

# RE WISCONSIN TELEPH. CO.

	Exchange	Intrastate Toll
(1) Based on Separations Manual 1949 year-end level.		
Telephone plant in service .....	\$119,400,580	\$32,353,216
Net working capital .....	2,039,006	459,820
Unamortized dial conversion expenses .....	904,448	115,632
Allocated A.T.&T.Co. servicing plant investment .....	432,345	117,150
Less depreciation reserve .....	28,068,377	11,270,964
Net property base .....	\$94,708,002	\$21,774,854
(2) Adjustment for revision of Separations method per finding 1 of August 7, 1950, order add or (subtract) .....	(\$1,945,000)	\$1,302,500
(3) Adjusted rate base per finding 2 of August 7, 1950, order ..	\$92,763,002	\$23,077,354

## Net Operating Income

The exchange and intrastate toll net operating incomes as set forth in find-

ing 4 of the Commission's order of August 7, 1950, were determined as follows:

	Exchange	Intrastate Toll
(1) Based on Separations Manual 1949 year-end level.		
Net operating income (ex. 55) .....	\$4,471,625	\$355,320
Add		
Adjustment for amortization of dial conversion expenses (ex. 50) .....	343,531	55,116
Deduct:		
Net effect of May 1, 1950, wage increases .....	126,144	53,144
Adjusted net operating income .....	\$4,689,012	\$357,292
(2) Adjustment for revision of Separations per finding 3 of August 7, 1950, order add or (subtract) .....	\$238,500	(\$160,000)
(3) Adjusted net operating income per finding 4 of August 7, 1950, order .....	\$4,927,512	\$197,292

## Proposed Toll Rates

Pursuant to the provisions of the Commission's order of August 7, 1950, the applicant has filed a revised schedule of intrastate toll rates designed to produce additional revenues of \$1,932,000 based upon the 1949 year-end level of operations. The additional

revenue provided under the revised schedule will after deduction of Federal and state taxes produce additional intrastate toll net operating income of \$1,037,346. The Commission has reviewed the proposed schedule and considers it to be fair and reasonable in the light of the applicant's additional revenue requirements.

## Re Whitin Machine Works

D.P.U. 9094  
October 20, 1950

**I**NVESTIGATION on Commission motion of proposal to substitute meter water rates for fixture rates; proposed rates approved.

*Rates, § 270 — Optional rates — Fixture rates — Meter rates.*

A water company should eliminate from its rate schedules a provision permitting customers a choice of either a fixture or meter rate, and all customers should be billed at the meter rate, since optional fixture rates are obsolete and tend to encourage waste of water, thereby jeopardizing the company's ability to serve.

APPEARANCE: Sumner P. Tilton,  
for the company.

By the DEPARTMENT:

### *Introduction*

The Whitin Machine Works in behalf of its water department, herein-after called the Company, filed with the Department on May 8, 1950, a new schedule of water rates and charges to become effective July 1, 1950. The new schedule eliminates the optional features of the existing schedule as to fixture rates and proposes that on and after the effective date thereof, all customers will be charged for water in accordance with metered rates. The Department acting on its own motion suspended the proposed schedule and deferred its use until May 1, 1951, unless otherwise ordered. After due notice, a public hearing was held on July 6, 1950, at which no one appeared in opposition.

The annual returns of the Company filed with the Department, together with its rate schedule and a report of the Department's engineering division relative to a physical inventory and appraisal of the Company's plant and equipment, were made a part of the record.

### *Background and Description of the Company*

The water system of the Whitin Machine Works was first established in 1890. It was installed for the purpose of furnishing water to its manufacturing plant, its tenements, and to the homes of its principal stockholders and executives. The original system consisted of one reservoir having a capacity of 225,000 gallons supplied from wells. The system was gradually enlarged so that at the present time it supplies water to consumers in the village of Whitinsville and to the town of Northbridge and further ex-



## MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES

tensions to the villages of Rockdale and Linwood are being contemplated. The Company's witnesses testified that at the present time its water supply is inadequate to properly meet its needs and that it has for some time been attempting to locate new sources of supply. To this end both the town of Northbridge and the Company have spent considerable sums of money. Some degree of success was attained and an additional source of supply obtained, which while not adequate for the Company's needs does warrant continuing and developing its exploration. The Company is, however, still faced with the necessity of conserving and protecting its present supply and taking all necessary steps to eliminate waste of water.

### *Present and Proposed Rates and Charges*

The schedules now in effect permit the customers of the Company a choice of either a fixture or meter rate. The proposed schedules remove this choice and provide that all customers be billed for water used under the provisions of the metered rate. The proposed metered rate is identical with that in effect at present except that it is stated in cents per cubic foot whereas the present rate is stated in cents per thousand gallons. Certain large consumers and public buildings enjoy a slightly lower rate than does the general consumer. The Company's witnesses stated that from a study made it estimates no additional revenue will be received as a result of the new schedule.

#### INCOME STATEMENTS FOR PAST FIVE YEARS

	1945	1946	1947	1948	1949
Revenues .....	\$25,284	\$31,386	\$32,927	\$32,612	\$24,100
Expenses .....	\$22,254	\$17,938	\$42,525	\$49,928	\$67,362

The above figures of revenue and expenses were placed in evidence, the annual returns filed with the Department by the Company never having been reported in sufficient detail properly to segregate the water division of the Company from its manufacturing operations. They are included herein only to show the extent of its water operations as the figures given for expenses are in no way indicative of normal expense figures, particularly in the last three years. In 1947, 1948, and 1949, the Company expended considerable sums of money in an effort to find a new source of supply and has included such costs in the above expense figures. Approximately \$60,000 was thus spent in drilling fourteen wells and building a pumping station.

As this additional supply is insufficient for future expansion and extension of the system, the Company contemplates the expenditure of additional sums for this purpose. The Company filed an estimated expense statement for 1950 adjusting the 1949 expenses by the elimination of nonrecurring items and providing for known increases in expenses and estimated 1950 expenses for the water system to be \$51,043 without including town taxes, depreciation, and administrative expenses. The estimate shows pumping station payroll, electricity, and sundry expenses of \$30,510 with the largest single item of expense being an electric bill of \$20,000; 1949 revenues exceeding by approximately \$4,000 the Company's electric bill.

## RE WHITIN MACHINE WORKS

From existing Department records it would have been impossible to determine and establish the value of the respondent's investment in property devoted to its public utility operations. The Department, therefore, assigned its engineers to make an appraisal of

the Company's water properties. The result of this appraisal was incorporated in the record and the report of our engineering division submitted in the form of an exhibit summarized as follows:

Description of Item	Original Cost	Depreciation	Cost Less Depreciation
Land .....	\$9,356.49		\$9,356.49
Structures .....	236,465.05	\$58,073.04	178,392.01
Pumping Plant Equipment .....	22,634.71	13,441.47	9,193.24
Purification System .....	967.00	470.80	496.20
Transmission and Distribution Mains .....	330,797.33	84,787.67	246,009.66
Services .....	17,003.60	9,871.67	7,131.93
Meters and Measuring Devices and Meter Installation .....	5,178.65	303.02	4,875.63
Hydrants .....	23,420.30	4,212.67	19,207.63
Transportation Equipment .....	2,600.00	472.70	2,127.30
Miscellaneous Equipment .....	2,683.18	563.16	2,120.02
Unfinished Construction .....	50,937.81		50,937.81
Materials and Supplies .....	11,843.96		11,843.96
Totals .....	\$713,888.08	\$172,196.20	\$541,691.88

The appraisal of our engineering division gives the net investment of the Company in its utility property as of June 30, 1950, of \$541,691.88.

### *Conclusion*

The instant proceeding is not a revenue case in the normally accepted use of the term. The Company for the past three years has been operating at a deficit and its witnesses testified that it expected to continue to operate at a loss for some years to come. It is even possible that the Company may experience some drop in its revenues from present customers as they become more conservative in water usage and eliminate waste under the provisions of a metered rate. It was testified that the Company expected

to make certain major replacements in its pumping stations and distribution system in the near future so that expenses are more apt to increase than be reduced.

The optional use of fixture rates in a company the size of the respondent is an obsolete method of assessing charges, as it tends to encourage the waste of water, thereby jeopardizing the Company's ability to serve. We find that the proposed schedule of rates and charges will enable the Company to more equitably assess its charges in accordance with volume of water used by its various customers. We are of the opinion that the proposed schedule of rates and charges should be allowed together with the revised rules and regulations.



# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*



## Southern Cal. Edison to Spend \$60,585,000 in 1951

**S**OUTHERN CALIFORNIA EDISON COMPANY'S construction budget for 1951 will require the expenditure of approximately \$60,585,000 for new plant and replacements, according to W. C. Mullendore, president.

Approximately \$2,000,000 less than was actually spent by the company for expansion during 1950, the expenditures scheduled for this year comprise a fluid budget, Mr. Mullendore said. He pointed out that, in the light of world conditions, additions to or eliminations from the 1951 budget would be necessary to meet changing conditions. It is expected that the company's 1951 program will provide facilities to deliver an estimated additional generation of 570,000,000 kilowatt hours.

Included among the major items of the 1951 budget is completion of the sixth hydro-electric powerhouse at the company's Big Creek project in the High Sierra; construction of a steam-electric generating station at Etiwanda, near Fontana, with a capacity of 250,000 kilowatts; new substations and lines, and replacements and additions to existing plant.

By the end of 1951 the company's unprecedented expansion program will have involved the expenditure of approximately \$340,000,000 over a period of six years.

## Utilities' Handling Problems To Be Discussed at Conference

**M**ANY problems of materials handling in the public utility industry will be considered at the Materials Handling Conference which will be held concurrently with the National Materials Handling Exposition at the International Amphitheatre, Chicago, April 30th-May 4th, inclusive.

The conference, which is the most extensive ever undertaken in the field, is sponsored by the American Material Handling Society.

Public utility executives also will find scores of machines specially suited to the industry among the thousands which will cover ten acres of exhibit area, both indoors and out.

Among the topics of prime interest will be "Bulk Handling and Storage Methods for Solids and Liquids," "Yard Handling Methods for Pipe, Structural Steel, and Odd Shapes," "Plant Warehousing and Shipping," and "Hard Goods Assorting and Warehousing."

Admission to both the exposition and conference will be free. Advance registration cards may be obtained from Clapp & Poliak, Inc., 341 Madison Ave., New York 17, New York.

## Robertshaw-Grayson Traveling Service School

**A**FIELD service program to educate service men in the maintenance and servicing of temperature controls has been field-tested by the Robertshaw and Grayson Divisions of the Robertshaw-Fulton Controls Company for several years, and is now available on a national basis.

This program, which covers both domestic and commercial controls, was developed with the thought of aiding the gas industry in training their service personnel.

In the Robertshaw-Grayson Service School, service men participate in the program. During the school session, lasting about three hours, the service men actually operate the controls with "live" gas; then dismantle, adjust and rebuild them under the supervision of factory-trained instructors.

All equipment is supplied by Robertshaw-Grayson and transported in a converted station-wagon. This traveling service school is available, at no cost, to any organization in the United States that feels the need of specialized training in temperature controls. Inquiries should be addressed to the sales department of either The Robertshaw Thermostat Company in Youngwood, Pennsylvania, or Grayson Heat Controls in Lynwood, California.

## New Heavy-duty Electric Cable Hoist Introduced

**A**NEW line of heavy-duty electric cable hoists is announced by the Cleveland Chain & Mfg. Company, Cleveland.

Hoists are manufactured in 1-, 11-, 2-, 3-, and 5-ton capacities. They will be sold under the trade name of "Bob-Cat." An outstanding Bob-Cat feature is its total enclosure of the motor within the cable drum. This greatly reduces over-all dimensions and affords substantial weight savings by comparison with hoists that employ conventional external type overhanging motors. Due to the enclosed hoist

(Continued on page 34)

## METER SEALING TOOL

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design, motors are completely protected against moisture, splashing liquids, weather, dust, and corrosive atmospheres. The Bob-Cat hoist line was originally designed by William F. Wright, well known hoist engineer.

For full details write to The Cleveland Chain & Mfg. Company, Broadway and Henry streets, Cleveland 5, Ohio.

### Ohio Edison Orders Another Unit for Niles Plant

**I**MMEDIATE ordering of a second 106,000 kilowatt steam turbine generating unit for Ohio Edison Company's new Niles plant was announced recently by President Walter H. Sammis at ground-breaking ceremonies for construction of the first 106,000 kilowatt unit.

The combined construction involves an estimated expenditure of more than \$32,000,000 including substations and connecting transmission lines. The first unit is scheduled for operation in the spring of 1953 and the newly announced unit is expected to follow into service a few months later.

New technical developments will be embodied in the plant design, including steam pressure of 1,650 pounds per square inch and temperature of 1,000 degrees F.

"Electric generating capacity of the Edison system has been increased by 465,000 kilowatts, or 72 per cent, since 1945," Mr. Sammis told the public officials present at the ceremony. "When the Niles Plant is completed

generating capacity will have been more than doubled in this time. In the last five years companies in the Edison system have expanded over \$131,000,000 for construction of new facilities and many more millions are expected to be spent in the years ahead."

### Elliott Bulletin Covers Turbo-Generators

**B**ULLETIN H-18, 40 pages, covering Elliott turbine-generators (500 kw and above) has just been released by Elliott Company's turbine division, Jeannette, Pennsylvania.

Nearly 50 turbine-generator installations, both utility and industrial, are pictured and described. Brief discussions of generator and exciter cooling methods are included. A reference section offers an interesting detailed drawing showing a typical turbine-condenser installation arrangement. Dimensions and weights of standard Elliott units are tabulated for easy reference.

### Self-Retracting 50-Foot Rule Cuts Time and Tape Damage

**T**o provide outdoor workers with full-length steel-tape rules which rewind automatically, Master Rule Manufacturing Company, Inc., of Middletown, New York, has developed a new 50-foot model called the Master Longboy-050. It is reported to be the first field tape which requires neither hand cranking nor reeling.

Telephone linemen, public utility field men and others will find the easy pocket portability and the rewind feature a great advantage in eliminating dragging and laying aside between measurements.

Further information may be obtained from the manufacturer.

### Bulletin Gives List of RLM Units and Manufacturers

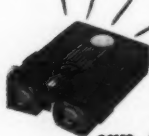
**P**UBLICATION of a new, four-page RLM bulletin, No. 1050, containing a complete listing of all RLM manufacturers and the RLM-certified lighting equipment made by each, is announced by the RLM Standards Institute, 326 West Madison street, Chicago 6, Illinois. Described as "an indispensable aid to everyone who buys, sells, recommends, or specifies industrial lighting equipment," copies of this new bulletin are available without charge from the Institute.

### R-R Offers "Conve-Filer" for Handling Large Card Files

**R**EMINGTON RAND has recently announced the availability of a new approach to the handling of large card file installations—electromechanical, continuous-tray filing and finding equipment.

The new device, known as "Conve-Filer," is controlled by a directional pedal-switch which activates a mechanism to bring each filing

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tray, as desired, to a point directly in front of the file operator. It is estimated that a reduction of up to 30 per cent in personnel operating hours may be obtained by using this unique equipment. The unit occupies little more space than regular card filing equipment and may even reduce the total working area required since extra tables and desks are made unnecessary.

According to the manufacturer, the new machine has been extensively tested in actual use by one of the larger insurance companies in the country with completely satisfactory results.

### New A-C Car Shaker Bulletin

**A**LLIS-CHALMERS car shaker for unloading granular material from hopper-bottom gondola cars is described in a new bulletin released by the company.

Construction features of the shaker are given along with specifications and a cross section through the vibrating mechanism.

Copies of the bulletin, "Allis-Chalmers Car Shaker," 07B7221A, are available upon request from Allis-Chalmers Manufacturing Company, 965 S. 70th street, Milwaukee, Wisconsin.

### G-E Appointment

**H**ENRY A. VAUGHN has been appointed manager of manufacturing of the General Electric Company's meter and instrument

divisions at Lynn, Massachusetts, according to an announcement by Harold E. Strang, manager of the divisions.

Mr. Vaughn, formerly superintendent of the specialty and standard instrument manufacturing divisions, succeeds Herbert L. Ross who recently was named manager of the G-E River Works at Lynn, Massachusetts.

### Data on Regeneration of Insulating Oils

**S**HARPLES CORPORATION announces publication of technical bulletin No. 50-DO, a discussion of contaminating effect of sludge, moisture, and carbonized particles on insulating oils and centrifugal equipment manufactured by Sharples Corporation for bringing up dielectric strength of such contaminated oils to 33 KV by Standard U. S. Test.

Copies of the bulletin may be obtained from the manufacturer, 2300 Westmoreland street, Philadelphia, Pennsylvania.

### Honeywell Expands Output Facilities of Brown Division

**M**INNEAPOLIS-HONEYWELL REGULATOR COMPANY is expanding its industrial production and operating facilities in Philadelphia, according to Henry F. Dever, president of the company's Brown Instruments division.

The Honeywell-Brown expansion in Phila-

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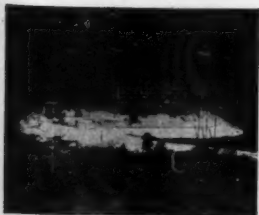
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delphia is the second in less than two years. When the company moved into its new building at Wayne Junction in May, 1949, it increased its over-all facilities to about 300,000 square feet, compared with its then total of 231,000 square feet. The latest addition of 110,000 square feet, exclusive of about 60,000 feet of undeveloped land, will almost double the area occupied in 1948.

### S. T. Mackenzie Made Sales Manager

**A**PPPOINTMENT of S. T. Mackenzie, head of the Philadelphia office of The Babcock & Wilcox Company to the newly created post of sales manager was recently announced by W. T. McCullough, Jr., vice president of the company. Previously Mr. McCullough handled duties of sales manager as well as of vice president. Mr. Mackenzie will have his headquarters in New York city.

R. W. Buntin will become district sales manager of the Philadelphia office to replace Mr. Mackenzie.

### Gas Co. Executive Tells About Appliance Standards

**"T**HE most widespread program of industry regulation in the consumers' interest now in existence on the North American continent," is the way Howard B. Noyes, vice president of the Washington Gas Light Com-

pany, described the standardization and appliance-testing program of the gas utility industry. He spoke at a "Consumer Clinic" on standards at the recent National Standardization Conference sponsored by the American Standards Association.

About 95 percent of the gas appliance manufacturers in the United States, he said, are constructing their equipment to conform to the standards of the American Gas Association. There are now more than 30,000 different types of certified domestic gas appliances available for customer selection.

Mr. Noyes declared that much of the success of the AGA appliance and installation approval program is the result of the work of the AGA Approval Requirements Committee, which is a sectional committee of the American Standards Association.

### Armco Issues Booklet

**A** NEW 16-page booklet entitled "Armco Corrugated Metal Pipe—A Type for Every Need" has been published by Armco Drainage & Metal Products, Inc., Middletown, Ohio.

It lists the types of full-round pipe and Pipe-Arch available to meet the specific requirements for various types of sewers, culverts, conduits, or irrigation systems. The booklet also contains reference data for assistance in selecting the most suitable structure.

Copies of the booklet can be obtained from the manufacturer.

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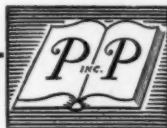
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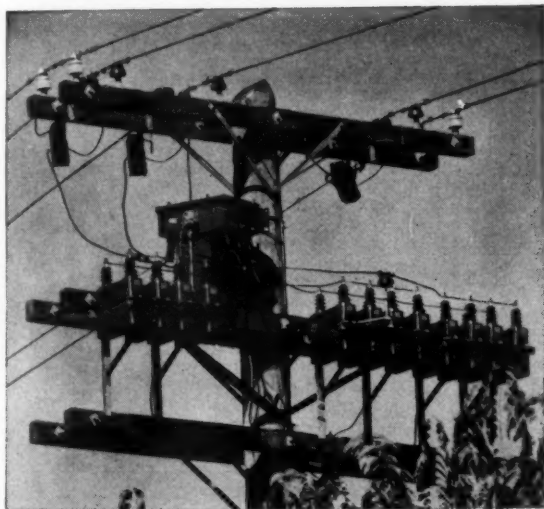
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Here is another case of a utility that is getting more effective use from its distribution system—

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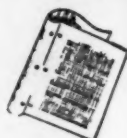
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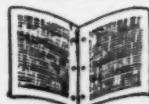
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